

Higher Education Funding Council for England
Annual report and accounts 2006-07

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Higher Education Funding Council for England
Annual report and accounts 2006-07

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Management commentary

HEFCE's role and responsibilities

The Higher Education Funding Council for England (HEFCE) was established on 6 May 1992 under Section 62 of the Further and Higher Education Act 1992. It assumed its funding responsibilities from its predecessor councils on 1 April 1993. Its role is set out in the Further and Higher Education Act 1992 and can be summarised as:

- To administer funds to support education and research in higher education institutions and other organisations.
- To administer funds to support prescribed higher education courses in further education colleges.
- To provide the Secretary of State for Education and Skills with information relating to all aspects of higher education teaching and research, including the financial needs of the sector.
- To secure the assessment of the quality of education at institutions that receive HEFCE funding.

HEFCE is therefore responsible for distributing public money to universities and colleges in England that provide higher education. In 2006-07 we distributed £6.9 billion in public funds. Most of this went to 132 universities and higher education colleges in England. Some HEFCE funds supported higher education courses in 143 further education colleges that we fund directly¹. An additional 144 further education colleges received HEFCE funding indirectly through a higher education institution (HEI)².

We have a statutory duty to ensure that provision is made for the assessment of the quality of education at institutions that receive HEFCE funding. This assessment is carried out on our behalf by the Quality Assurance Agency for Higher Education and monitored through the Quality Assessment, Learning and Teaching committee.

Distribution of funding

Of the £6.9 billion in public funds distributed during the 2006-07 financial year, the vast majority is provided as recurrent funding for teaching and research. This is allocated as a block grant which institutions can then decide how to distribute internally to support their own priorities. The remaining funding – referred to as 'non-recurrent grant' – supports specific initiatives to deliver strategic objectives, and to fund national activities such as the Joint Information Systems Committee. Analysis by our strategic aims of both recurrent and non-recurrent funds distributed in 2006-07 is provided in Note 4 of the accounts.

The Secretary of State for Education and Skills set out in his annual grant letter to HEFCE the public funding to be made available for higher education for 2007-08. A total of £6,884 million has been allocated for distribution by HEFCE in 2007-08. The grant letter for 2007-08 is available at www.hefce.ac.uk under Finance and assurance/Finance and funding/Grant letter from DfES.

¹ Numbers of institutions can change through the year - for example due to mergers and transfers. The figures used here are for funding announced in 'Recurrent grants for 2006-07: final allocations' (reference HEFCE 2006/43 available on the web at www.hefce.ac.uk under Publications).

² Figures for institutions that only receive indirect funding from HEFCE are taken from the Higher Education Statistics Agency (HESA) student data for 2005-06 for franchised provision, and the 2006 Higher Education Students Early Statistics Survey (HESES) and the 2006 Higher Education in Further Education: Student survey (HEIFES) for consortia provision for 2006-07.

Our mission

'Working in partnership, we promote and fund high-quality, cost-effective teaching and research, meeting the diverse needs of students, the economy and society.'

To achieve our mission, we have set out in our strategic plan for 2006-11 our broad vision for the development of higher education (HE) over the next five years, and our strategy for moving towards it. The plan was the outcome of a lengthy period of discussion and consultation with a wide range of partners and stakeholders. The strategy development process and dialogue with our stakeholders is documented online at www.hefce.ac.uk under About us/Strategic plan.

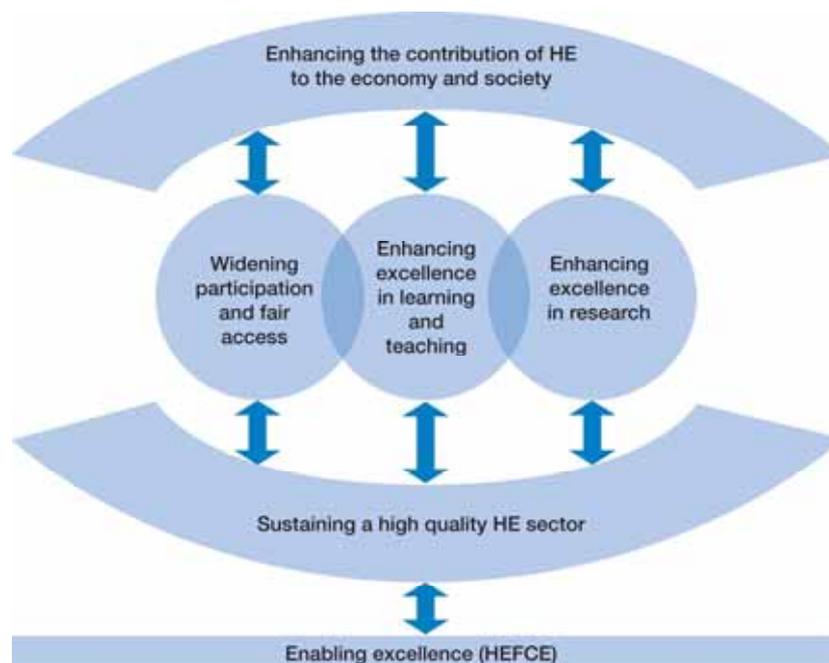
Our strategic aims

The strategic plan for 2006-11 (reference HEFCE 2006/13) is available on the web at www.hefce.ac.uk under Publications. It sets out our four core strategic aims:

- **Enhancing excellence in learning and teaching** – to ensure that all higher education students benefit from a high quality learning experience fully meeting their needs and the needs of the economy and society.
- **Widening participation and fair access** – to promote and provide the opportunity of successful participation in higher education to everyone who can benefit from it.
- **Enhancing excellence in research** – to develop and sustain a dynamic and internationally competitive research sector that makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge.
- **Enhancing the contribution of HE to the economy and society** – to increase the impact of the higher education knowledge base to enhance economic development and the strength and vitality of society.

Underpinning these are two cross-cutting and supporting aims:

- **Sustaining a high quality HE sector** – to sustain a high quality HE sector which adapts to the developing needs of stakeholders, and which continues to be recognised as world class.
- **Enabling excellence** – to ensure that we can effectively deliver the strategic plan, working to the highest standards in all that we do.



Structure

HEFCE's policies are decided by Board members who are responsible for the strategic direction of the organisation. A number of standing committees and working groups advise the Chief Executive (who is also the Accounting Officer) and the Board on specific issues. Policies are then developed and put into practice by HEFCE's staff, based within four directorates.

HEFCE Board during 2006-07

Board members are appointed by the Secretary of State for Education and Skills, normally for periods of two or three years. In turn, the Board appoints a Chief Executive to lead the organisation and to advise the Board; he serves as the HEFCE Accounting Officer.

Membership of the HEFCE Board for 2006-07 was as follows:

Chairman	David Young
Chief Executive	Professor David Eastwood (from September 2006) Steve Egan (Acting Chief Executive to August 2006)
Members	Alastair Balls CB (from December 2006) Richard Coldwell (to November 2006) Professor David Eastwood (to August 2006) Jackie Fisher CBE Dame Patricia Hodgson Dr Beverly Malone (to December 2006) Professor Peter Rubin Peter Saraga OBE Professor Nigel Savage Professor Sir Peter Scott (to November 2006) Ed Smith Sir Richard Sykes Ann Tate Professor Paul Wellings (from September 2006) Professor Dianne Willcocks (from December 2006) Professor Tim Wilson

Information on each member and their interests is available on the web at www.hefce.ac.uk under About us/HEFCE's Board. The Board has established audit and remuneration committees, a complaints panel, and a range of strategic committees to support its work. Current membership of these committees is also available on our web-site.

HEFCE Chief Executive's Group

HEFCE's Chief Executive's Group is made up of Professor David Eastwood, Chief Executive*, and four directors, who combine leadership of a key strategic area with responsibilities for regional and institutional issues. HEFCE's staff work in teams based within the four directorates. Directors' responsibilities for strategic aims are outlined below. Further information on HEFCE's structure is available at www.hefce.ac.uk under About us/Staff and structure.

Director	Key strategic areas
Liz Beaty Director (Learning and Teaching)	Enhancing excellence in learning and teaching
John Selby Director (Widening Participation)	Widening participation and fair access
Rama Thirunamachandran Director (Research and Knowledge Transfer)	Enhancing excellence in research Enhancing the contribution of HE to the economy and society
Steve Egan Director (Finance and Corporate Resources)* and Deputy Chief Executive**	Sustaining a high quality HE sector Enabling excellence

*From 1 September 2006.

**From 13 September 2006.

During the period to 31 August 2006 when Steve Egan was Acting Chief Executive, in addition to the four current directors noted above, **Robin Jackson** was Acting Director (Corporate Resources), and **Ian Lewis** acted as Principal Finance Officer. During 2006-07 **John Selby** was Acting Director (Widening Participation); he was appointed Director on 2 April 2007.

Our performance and achievements during 2006-07

For each of our six aims in the 2006-11 strategic plan we have identified objectives and key performance targets. The targets allow us to measure progress in some key aspects of the plan.

Integral to the development of our strategic plan was a process of risk assessment. For each of the six aims, we therefore also identified the key risks to achieving the aim. In developing the programme of activity to deliver the objectives, we took into account actions required to manage and mitigate the risks.

The programme of work required to deliver our strategic aims and objectives is set out in our operating plan for 2006-09 (www.hefce.ac.uk under About us/Operating plan). For 2006-07, this contained 29 high-level activities spread across our six strategic aims.

We have reported progress against these activities during the past year to our Board and – via our web-site – to our stakeholders. Every three months we have used a ‘traffic light’ system to class each activity as green, amber or red. This has provided a broad indicator of the status of our activities and a means of showing changes in status through the year. Under this system:

- Green indicates that progress is being made according to plan and that the activity overall is expected to deliver on time, within budget and to an appropriate quality.
- Amber indicates that there have been some difficulties with the activity but that remedial action is planned or in place.
- Red indicates that there have been significant difficulties and delivery of the activity is unlikely.

In this annual report we have continued to use this reporting format. A status bar for each activity shows its traffic light ratings through the year, giving an ‘at a glance’ assessment of how we have done. We then provide a commentary on our performance in that activity, and an assessment of progress to date against each of our key performance targets.

All HEFCE documents mentioned are available on our web-site, www.hefce.ac.uk under Publications.

Strategic aim: Enhancing excellence in learning and teaching

To ensure that all HE students benefit from a high quality learning experience fully meeting their needs and the needs of the economy and society.

Objectives

- To promote continuous improvement in learning and teaching through:
 - investing in excellence
 - refining the arrangements for quality assurance and strengthening their connection with quality enhancement
 - supporting the professional development of those who contribute to the effectiveness of student learning.
- To enable greater flexibility in the provision of learning and teaching and opportunities for lifelong learning.
- To facilitate engagement with employers, students and other stakeholders to ensure a high quality learning experience that meets the needs of students, the economy and society.
- To support innovation and the use of new technologies that enrich the student experience and promote greater skills for lifelong learning.
- To support the sector to be internationally competitive in learning and teaching and to play a leading role in co-operation and good practice at European and international levels.
- To develop further a funding policy that supports these objectives.

Risks

The key risks to achieving our strategic objectives under this aim are:

- That developments in quality assurance and quality enhancement procedures fail to retain the confidence of the sector and/or restrict our ability to fulfil our statutory role.
- That our strategy for employer engagement fails to ensure a higher level of skills and knowledge that meets the needs of the economy and society.
- That the outcome of the teaching funding review does not meet the aims set and/or win the confidence of the sector and/or the Government.
- That our strategy for employer engagement fails to secure sufficient funding contributions from employers (added in February 2007).

Making progress

This year we have been involved in debates which question the nature of higher education in a changing policy context. The sector has begun to reshape strategy and build capacity for employer engagement, and continues to innovate to enhance the quality of the student experience. This is providing HE that is more flexible, fit for diverse outcomes, and that produces high levels of satisfaction among learners and employers. HEFCE has worked with the sector to facilitate these trends and adapted its own systems of funding and regulation to ensure that high quality learning and teaching, meeting the evolving needs of the learner, economy and society, is sustained and supported.

Continuous improvement of learning and teaching

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We continue to provide earmarked funding to institutions to promote the enhancement of quality, encouraging strategic investment in learning and teaching.

The National Student Survey (NSS) is now in its third year and is taking place in all HEIs in England, Wales and Northern Ireland, as well as in some Scottish institutions. The 2006 survey revealed that around 80 per cent of students were satisfied with their course. Engagement with the survey from institutions increased in 2006 and we expect to exceed these response rates in 2007. This means that we will be able to publish more information about institutions than ever before.

The Higher Education Academy continues to support staff and students in HEIs in areas such as subject development, professional standards, and collaboration. It is implementing a three-year programme of work to help the sector meet the challenges of engaging with employers set out by the Leitch Review of Skills, which was published by HM Treasury in December 2006. This will include working to improve links between the Academy's subject centres and Sector Skills Councils.

The Quality Assurance Agency (QAA) continues to operate effectively and its work is well received by the sector. Quality and standards of English higher education remain high, and audits by the QAA are providing institutions with valuable opportunities for self-evaluation and quality enhancement. In 2006-07 the Agency worked with us in developing and implementing the new method of review for higher education in further education colleges (Integrated Quality and Enhancement Review). It also supported development in policy areas such as the Burgess Group work on the use of credits in English higher education, and the Bologna process, which is working towards greater comparability and compatibility between European HE systems.

We consulted in November 2006 on developing and improving the capacity for further education colleges to deliver higher education (HEFCE 2006/48). The consultation set out our view of the distinctive contribution made by further education colleges to the overall pattern of higher education, and signalled our proposed strategic approach for the continued development of this provision. In support of this, we proposed to develop Centres for Higher Education Excellence in Further Education Colleges. There was strong support overall from both higher education institutions and further education colleges for our proposals, and the outcomes of this consultation will inform the implementation of our strategy in this area in 2007-08.

Flexible lifelong learning

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We are funding pathfinder projects at five institutions to pilot flexible approaches to study. The projects include the provision of fast-track honours degrees, blended learning (where e-learning is augmented by more traditional methods), and corporate and work-based learning. They involve a range of subject areas such as biomedical sciences, tourism, and children and young people's services.

We continue to work with the Joint Information Systems Committee and the Higher Education Academy in implementing our e-learning strategy, and with Foundation Degree Forward to support the further development of foundation degree courses. We published a report on foundation degree programmes which traced the growth in numbers of students from 2001-02 to 2006-07 (HEFCE 2007/03). It also presented the attributes, progression, achievement, attitudes and post-qualification outcomes of students, and the support they receive from their employers.

We have published our strategy and action plan on employer engagement (www.hefce.ac.uk under Learning and teaching/Employer engagement/Employer engagement strategy) and begun work to support flexible learning in the workplace. Our approach includes work with a number of different bodies and agencies to identify barriers to engaging with employers, to increase capacity in institutions to develop their existing engagement, and to test the demand for courses that may be co-funded by employers.

Three regional higher-level skills pathfinder projects – in the South West, North East and North West – have received funding since November 2006. The pathfinders are charged with developing approaches to drive up the demand for higher-level skills, engaging with Train to Gain (a new service designed to help businesses get the training they need), embedding higher education in employers' workforce development strategies, and exploring the contribution employers might make to tailored provision. All three pathfinders are building on extensive

activity already taking place and are working with Regional Development Agencies, Sector Skills Councils, Regional Skills Partnerships and regional Learning and Skills Councils.

Facilitating stakeholder engagement

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Our work in developing a strategy for employer engagement has facilitated collaboration and engagement between institutions and employers. Institutions have identified a number of areas where they can build on their existing strengths in working with employers, which we are supporting through our Strategic Development Fund and through the work of our partner agencies. Other activities mentioned in this report demonstrate how institutions are engaging with stakeholders, including students and related bodies.

Innovation and new technology

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We continue to work with other partners, including the Joint Information Systems Committee and the Department for Education and Skills to identify and invest in new technologies. Our work on the Centres for Excellence in Teaching and Learning initiative has provided funding for innovative new teaching spaces and improved technology to benefit students.

International connections and competitiveness

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We have worked to strengthen and incorporate international considerations into our learning and teaching policy. We have taken an active role in the Prime Minister's Initiative II to support international HE activities, and monitored English HE engagement with the Bologna Process (establishing a European Higher Education Area by 2010), and will contribute further to this initiative throughout 2007-08.

Developing the funding policy to meet strategic objectives

April to June	July to September	October to December	January to March
Green	Green	Green	Green

The first consultation on the review of our funding method for teaching provided us with valuable contributions from the sector. This year we have continued to engage with stakeholders, and consulted formally in early 2007 on our proposals to develop the method in order to provide flexibility for institutions within a stable funding environment (HEFCE 2007/02).

In summary

The Council's work in learning and teaching in the last year shows some good progress but we have much more to do, to connect this work with other areas of our strategic plan. The changing context and the increasing variety of demands placed upon HE means we must continue to test that our approach is appropriate and effective, working with institutions and partners to deliver our objectives.

Key Performance Target	Progress to 31 March 2007
<p>KPT1: At least 95 per cent of HEIs receive judgements of confidence in institutional quality audits by the Quality Assurance Agency, completed by 2008-09.</p>	<p>On target: The latest report from the Quality Assurance Agency shows that 96 per cent of institutions have received judgements of confidence.</p>
<p>KPT2: The proportion of students who are broadly satisfied with all aspects of teaching covered by the National Student Survey increases between 2005 and 2009.</p>	<p>On target: The figure for 2005 is 57.5 per cent. There are two figures for 2006 (as there will be for subsequent years): one a weighted figure that replicates the number of respondents by institution and mode from the 2005 survey; and one that is the raw unweighted figure. Response rates by HEIs vary significantly from year to year and it would therefore be possible to observe a change in satisfaction rate simply because an institution's response rate varied. In addition, for the second and subsequent years of the survey the number of part-time students is significantly reduced as we do not re-survey part-time students on flexible programmes every year. In 2006, the weighted figure is 59 per cent and the unweighted one is 58 per cent.</p>
<p>KPT3: The continuation rate for students in English HEIs across the planning period is the same as, or better than, the benchmark value calculated from the start year 2002-03.</p>	<p>On target: Actual figures about retention are published by the Higher Education Statistics Agency (HESA) as part of the performance indicators in July, so there is an embargo on releasing them before that date. However, for 2004-05 the benchmark value was the same (to one decimal place) as the actual continuation rate.</p>
<p>KPT4: To increase innovative, flexible approaches to the delivery of higher education across the planning period.</p>	<p>On target: Pathfinder projects for fast track degrees, and pathfinder projects and pilots for employer engagement, were implemented in 2006.</p>
<p>KPT5: The proportion of HEIs reporting high levels of employer involvement in the HE curriculum increases to 80 per cent by 2009.</p>	<p>On target: 79.0 per cent of HEFCE-funded higher education institutions that returned information (January 2007 data) reported that they had high levels of employer engagement in the HE curriculum. This compares with 78.5 per cent of institutions that returned information in 2005.</p>

Strategic aim: Widening participation and fair access

To promote and provide the opportunity of successful participation in HE to everyone who can benefit from it.

Objectives

- To increase and widen participation in HE.
- To stimulate and sustain new sources of demand for HE among under-represented communities and to influence supply accordingly.
- To improve opportunities for lifelong learning for everyone who can benefit.
- To embed widening participation in the corporate policy and practice of HEIs.

Risks

The key risks to achieving our strategic objectives under this aim are:

- That the supply of places created to meet the participation target does not match the demand from students in terms of level, mode (full-time or part-time) or location.
- That there is insufficient demand for HE places from 18-30 year-olds to meet the participation target.
- That there is insufficient increase in representation from the under-represented socio-economic groups. This could be due to higher fees deterring debt-averse students; poor information, advice and guidance; widening participation being marginalised in some universities and colleges; insufficient growth; and/or those universities and colleges most likely to widen participation struggling in the new market conditions.
- That there is no increase in the rate of progression to HE for those with vocational qualifications. This could be due to: a failure of Lifelong Learning Networks to recruit students, or to agree or operate progression agreements that guarantee progression for learners on vocational programmes; a failure in other collaborations between HEIs and further education colleges (FECs); or a failure of HEIs and/or FECs to make vocational opportunities available over a lifetime.

Making progress

For the 2006-07 academic year universities and colleges received £344 million to support their work in widening participation. This allocation included an additional £40 million to support institutions in maintaining their provision for part-time students. The funds within the widening participation allocation typically pay for extra teaching support or advisory services for students to help them successfully complete their courses. It also supports outreach work with local schools and colleges to encourage pupils to aim for university.

Supporting collaborative activities

April to June	July to September	October to December	January to March
Amber	Amber	Amber	Amber

The latest data on participation in higher education by 17-30 year-old first-time entrants to HE, released in March 2007, show an overall increase of two percentage points. The Higher Education Initial Participation Rate for 2005-06 was 43 per cent, whereas the rates for 2004-05 and 2003-04 were 41 per cent and 40 per cent respectively.

In addition, a new measure has been designed by the Department for Education and Skills, based on the Higher Education Initial Participation Rate, called 'Full-time Young Participation by Socio-Economic Class'. This shows that the gap between the participation rates of young, full-time students from the top three socio-economic classes and those from the bottom three socio-economic classes has narrowed by 2.8 percentage points. While young participation in the top three socio-economic classes fell slightly from 45.8 per cent to 43 per cent, participation in the bottom three socio-economic classes remained fairly static at 19.2 per cent in 2002-03 and 19.1 per cent in 2004-05.

However, the performance indicators published in the summer of 2006 by the Higher Education Statistics Agency had shown a slight decrease in the proportions of students accessing higher education from the lower socio-economic classes. The performance indicators measure the distribution of entrants across institutions and are one of the measures of fair access. They do not measure the absolute rates of participation from lower socio-economic groups, as this would require a comparison of the numbers entering higher education from these groups with the numbers in these groups in the wider population. For example, if the numbers of people from lower socio-economic groups in the wider population were to fall, then the numbers entering HE from these groups would also fall, all other things being equal. Nonetheless, we accept that the indicators may have represented a slippage in progress toward our key performance target, which resulted in this activity being given an amber rating. Because of this, we undertook an audit of widening participation which demonstrated the need for improved evidence at the local level, to help identify particularly effective widening participation activities. As a result, we have developed a programme of work to provide evaluation support to higher education institutions and Aimhigher Partnerships (see below) to enable them to build the capacity to gather such evidence.

We continue to support institutions in meeting the needs of disabled students by providing the mainstream disability allocation within the widening participation allocation; this amounted to £12.9 million for the 2006-07 academic year. We also fund the Disability Equality Partnership which delivers support to the sector through Action on Access (the national co-ordination team for widening participation), the Equality Challenge Unit and the Higher Education Academy.

We continue to manage the Aimhigher programme, which we fund jointly with the Department for Education and Skills. HEFCE contributes £29 million per year towards the Aimhigher programme which supports hundreds of national and regional projects. Many of these focus on young people before they take their GCSEs (some working with primary school children), and offer a range of outreach activities such as open days, summer schools, mentoring, higher education taster days and campus visits. The evaluation of Aimhigher has found that greater than expected levels of attainment are associated with being involved in these activities: an average improvement of 2.5 points in GCSE total points scores was observed, and a 3.9 per cent increase in Year 11 pupils intending to progress to HE.

In both our review of widening participation and the evaluation of the Aimhigher programme, summer schools were considered one of the most effective types of outreach activity. In consequence, we have developed our proposals and approved the funding to continue the summer school programme to 2010.

Progression and lifelong learning

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Lifelong Learning Networks (LLNs) have been set up to improve the coherence, clarity and certainty of progression opportunities for vocational learners into and through higher education. To date, we have allocated approximately £100 million to 28 networks spanning 118 HEIs and more than 290 further education colleges. Attention is now focused on monitoring and evaluating progress. Monitoring reports so far suggest that early activity by LLNs is in areas where they have previous experience, namely providing information, advice and guidance to existing and potential students, and developing foundation degrees. Progress in other key areas such as establishing progression agreements between HEIs and further education colleges is proceeding, albeit a little more slowly.

Working in partnership with the Department for Education and Skills, we are taking forward a programme to encourage and assist institutions in engaging with the development and delivery of the new diplomas for 14-19 year-olds. We are funding five pathfinder projects through the LLNs, which will seek to establish models of engagement for both other LLNs and institutions more broadly. The five projects will be matched to each of the first five diploma lines to be

delivered in 2008. In addition, with the Higher Education Academy, we are establishing how engagement can be further encouraged through its network of subject centres. We are using the expertise of HEFCE regional teams to promote awareness of the diplomas, seeking to ensure that institutions are sufficiently involved in their development and delivery to be confident that diplomas are appropriate entry qualifications to HE programmes. Such endorsement from higher education is crucial to the success of the diplomas in the longer term.

The provision of clear progression routes for learners from a variety of academic and non-academic pathways is essential if we are to ensure that higher education is available to all who could benefit from it. In taking this strand of work forward, we are committed to encouraging a culture whereby a wide variety of entry qualifications are deemed not only acceptable but desirable by HEIs.

Embedding widening participation

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Action on Access continues to support the work of regional Aimhigher partnerships in planning and delivering Aimhigher activity, as well as taking responsibility for supporting disability issues within widening participation in Aimhigher partnerships and institutions, a task previously undertaken by the National Disability Team. In addition, there has been an increased emphasis on supporting our work to embed widening participation in institutions. Additional support has been provided through seminars and conferences, publication of a case studies document entitled 'Policy that works', monthly e-bulletins, and a redesigned web-site which has seen a five-fold increase in site visits since its re-launch.

In March 2006, in line with recommendations from the Admissions to Higher Education Steering Group chaired by Professor Steven Schwartz, we agreed along with the other UK funding bodies to fund the Supporting Professionalism in Admissions programme. The programme's mission is to lead on the continuing development of fair admissions, to bring together and evaluate existing research as well as commissioning new research as appropriate, and to encourage the identification and organise the dissemination of effective practice. Supporting Professionalism in Admissions will support all HE staff involved with admissions procedures and processes, cover issues relating to widening participation, and link closely to the Universities and Colleges Admissions Service programme of continuing professional development for admissions staff.

Our current research strategy for widening participation and fair access was published in October 2004 (HEFCE 2004/34). Since then we have: published the 'Review of widening participation research: addressing the barriers to participation in higher education' by Professor Stephen Gorard et al, and a complementary think piece from Professor Sir David Watson entitled 'How to think about widening participation in UK higher education'; supported six widening participation research projects through the Economic and Social Research Council's Teaching and Learning Research Programme; funded the establishment of a widening participation research service, developed by the Higher Education Academy; funded the 4 Cities research which supported four research projects focusing on the factors behind the very low HE participation rates in certain constituencies. We now feel that the time is right to revise our widening participation research strategy so that it can more effectively reflect the work that has already been done and the changing policy priorities such as development of the 14-19 curriculum, employer engagement and the delivery of flexible progression routes to higher education.

In summary

In 2007-08 we believe it will be essential to acquire greater amounts of and more robust evidence at the local level about what actually works in widening participation. We are producing guidance for Aimhigher partnerships and institutions on effective targeting to ensure that interventions reach the right people. This, along with our work to improve capacity for

institutions and partnerships to collect robust evaluation evidence, will help provide a far more comprehensive picture of effective widening participation activity. Our overall aim remains to ensure that widening participation becomes embedded within the corporate policies and practices of institutions across the sector to ensure all who are able to benefit from higher education have the opportunity to do so.

Key Performance Target	Progress to 31 March 2007
<p>KPT6: To increase participation in HE in line with the funding and policies set out in the Secretary of State's annual grant letter.</p>	<p>On target: The Higher Education Initial Participation Rate for 2005-06 has shown an increase in participation rates of two percentage points from 41 per cent in 2004-05 to 43 per cent in 2005-06.</p>
<p>KPT7: To increase the proportion of students (full-time and part-time, both young and mature) from under-represented groups in HE.</p>	<p>Not on target: The performance indicators for 2004-05 show that of the total number of entrants to HE the proportion of those from the lower socio-economic groups decreased very slightly: to 28.2 per cent (down from 28.6 per cent) with 13.7 percent from low participation neighbourhoods (down from 13.9 per cent). However, between 2002-03 and 2004-05 the measure of Full-time Young Participation by Socio-Economic Class has shown a narrowing of the gap in participation rates between those in the three highest socio-economic groups and those in the lowest three socio-economic groups, by 2.8 percentage points. Therefore, although this KPT is not on target we can draw some encouragement from this new measure of young participation.</p>

Strategic aim: Enhancing excellence in research

To develop and sustain a dynamic and internationally competitive research sector that makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge.

Objectives

- To maintain a research sector with a strong position among the world leaders, which can respond flexibly to the changing needs of stakeholders and lead in developing new and innovative fields of enquiry.
- To work with Government and the sector to develop a system for assessing research which informs funding and demonstrates the power of the national research base, helping institutions to identify and foster excellence.
- To ensure that research can be supported without prejudice to the sustainability of the sector's long-term financial, physical and human resources, or the delivery of other activities in the public interest.
- To develop a funding policy that achieves these objectives.

Risks

The key risks to achieving our strategic objectives under this aim are:

- That HEIs are not recovering the full economic costs of research from funders and sponsors.
- That the outcomes of the 2008 Research Assessment Exercise fail to win the confidence of the sector and/or the Government.
- That growing competition from emerging research economies impacts on the UK's international position in research excellence.

Making progress

In 2006-07 we continued to focus on identifying and supporting research excellence. Preparations for the 2008 Research Assessment Exercise (RAE) have proceeded as planned, and we have worked with the Government and the sector on proposed reforms to the research assessment and funding arrangements to take effect after 2008. We have delivered initiatives to support research capability in key strategic areas, and worked with the sector and other research funders to make progress in enabling higher education institutions to recover the full economic costs of research.

Research excellence

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Throughout the year, preparations for the 2008 RAE have progressed according to plan. Submissions from institutions were formally invited in December 2006, and the RAE data collection system was launched in January 2007. Panels will undertake their assessments of research during the calendar year 2008, with results due in December 2008.

We took part in a working group on proposed reforms to the research assessment and funding framework, on which the Department for Education and Skills consulted the sector during 2006. Following the outcomes of this, we have begun to develop a new framework to replace the RAE after the 2008 exercise. We have commissioned expert advice on the potential for using bibliometric indicators within the new framework. We will develop specific proposals for the new framework and will consult the sector and other stakeholders on these during 2007-08.

Research funding

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We have continued to develop some elements of quality-related (QR) funding – our core grant to HEIs for research. We allocated £135 million in the academic year 2006-07 and £180 million in 2007-08 to support institutions undertaking research funded by charities, to help them recover the full costs of this research. We announced a new element of QR to incentivise research that directly meets the needs of business, and allocated £60 million for this in 2007-08.

We have progressed our policy to support strategic research collaboration between institutions, informed by discussion with colleagues from the higher education sector at a seminar in September 2006. Through the Strategic Development Fund, we allocated £4 million to the Midlands Physics Alliance to support research collaboration and associated activities.

The research base

April to June	July to September	October to December	January to March
Green	Green	Green	Green

During the year we have supported research capacity in strategic areas. In collaboration with the Engineering and Physical Sciences Research Council, we announced the third round of the Science and Innovation Awards in December 2006. Seven new programmes with a value of over £31 million will support strategic areas in the physical sciences that are particularly at risk of losing the capacity needed for research and postgraduate training. We are contributing to an £18 million programme led by the Economic and Social Research Council (ESRC) to build advanced quantitative methods in social science research, which began in 2006-07. In partnership with the ESRC and the Arts and Humanities Research Council, in June 2006 we announced the launch of five new collaborative centres as part of the joint £25 million Language Based Area Studies initiative. In November 2006 our Board confirmed that the Veterinary Training Research Initiative would be extended for a further two years up to 2008-09, through a partnership with the Department for Environment Food and Rural Affairs.

We have developed processes for monitoring institutions' progress towards sustainability through annual Transparent Approach to Costing returns which look at their income and costs for all activities. Also during 2006 we introduced a set of metrics to monitor the sustainability of the research base. This was reported in April 2006 to the Research Base Funders' Forum (a group of public and private funders of research) and will be updated annually from 2007.

The Research Information Network has established its programme of activities to co-ordinate the provision of research information for the benefit of UK researchers, and we have begun to review its role and impact. We have also begun to review our special funding for research libraries.

People in research

April to June	July to September	October to December	January to March
Green	Green	Green	Green

The Quality Assurance Agency for Higher Education completed a special review of research degree programmes in 2006 to assess and secure the standards of these programmes. During the year we analysed data about qualification rates for research degree students, and following technical improvements to the data, we will publish qualification rates for each institution during 2007. We continued to allocate funds for the Overseas Research Student Awards Scheme using the simplified arrangements introduced in 2005-06, and during 2007-08 we will review how funding allocations should be determined for future years.

We have worked with the Department of Health on the UK Clinical Research Collaboration (UKCRC) to enhance the clinical academic careers of staff in medicine and dentistry. In 2006-07 we announced 37 Clinical Senior Lectureship Awards, to help develop high-quality capacity

and enhanced outcomes in research and teaching at senior lecturer level. We will announce further rounds of these awards annually up to 2011-12. UKCRC is currently consulting on proposals for supporting research in nursing.

In summary

In 2007-08 we will undertake significant work and extensive consultation to develop the new framework for research assessment and funding. While these reforms will provide a stable framework for our continuing support of a world-leading research base which is dynamic and responsive, further progress is needed to ensure its financial sustainability. We will continue to monitor institutions' progress towards sustainability through annual Transparent Approach to Costing returns looking at their income and costs for all activities, and through the broader monitoring of the sustainability of the UK research base initiated by the HE Research Base Funders' Forum. We will also continue to identify and target efforts, in partnership with other research funders, to support strategic and vulnerable areas of the research base.

Key Performance Target	Progress to 31 March 2007
<p>KPT8: To maintain England's contribution to the UK's leading international position in research excellence throughout the planning period.</p>	<p>On target: The Office of Science and Innovation's annual reports on 'PSA target metrics for the UK Research Base' include a range of indicators and metrics that show the UK's continuing strong international position.</p>
<p>KPT9: To ensure that the 2008 Research Assessment Exercise delivers on time and produces results which command the confidence of the sector; and to develop a process for assessing research quality beyond this.</p>	<p>On target: Preparations for the 2008 RAE have proceeded to schedule. As noted above, work has begun to develop the future research assessment and funding framework.</p>
<p>KPT10: To demonstrate improved sustainability of the national research base by 2011.</p>	<p>On target: Indicators of the sustainability of the research base were developed and reported to the HE Research Base Funders' Forum in 2006. This forms a baseline against which progress will be reported annually from 2007.</p>

Strategic aim: Enhancing the contribution of HE to the economy and society

To increase the impact of the HE knowledge base to enhance economic development and the strength and vitality of society.

Objectives

- To secure long-term and adequate support for third stream activities as a significant HE function.
- To integrate third stream activities into every HEI in a sustainable way that is appropriate to their missions.
- To engage a wider range of users in the HE knowledge base by promoting a distinctive regional third stream mission.
- To increase global engagement between our HE knowledge base and overseas HE and users.
- To provide a stronger and clearer focus on the social aspects of third stream activities, to increase HE impact and stakeholder buy-in.
- To work with partners to develop a co-ordinated awards scheme to encourage and support public engagement activities by HEIs.
- To devise and use effective funding mechanisms, metrics and evaluations, appropriate to third stream activities.

Risks

The key risks to achieving our strategic objectives under this aim are:

- That the many national and regional stakeholders engaged in third stream activities do not achieve the common purpose necessary to unlock all HE potential.
- That we fail – through lack of vision, ideas, effectiveness or appropriate measures – to support the HE sector in making its full (and diverse) contributions to national competitiveness and improved quality of life.
- That HEIs neglect third stream work relative to teaching and research because, for example, they do not see the rewards as proportionate to effort.

Making progress

We are committed to long-term support for enhancing the contribution of higher education to the economy and society. We call this aspect of HEIs' activities the 'third stream', alongside and integrated with teaching and research. Our third stream funding is one of many influences on the economic competitiveness of our nation, and the strength and vitality of our society. The Government provided a strategic picture of the influences on competitiveness in its Science and Innovation Investment Framework 2004-14.

In 2006-07 we have made progress towards all the objectives we set ourselves in this strategic aim. We have taken large steps forward in rolling out round three of the Higher Education Innovation Fund (HEIF3). In addition, a significant part of our strategic work has been with our strategic advisory committee for business and the community, examining the overall context for innovation and enterprise in the UK. Two government departments – the Office of Science and Innovation in the Department of Trade and Industry, and the Department for Education and Skills – sponsor the third stream, and we continue to work with both. We have also held discussions with other key partners to the investment framework, including the Technology Strategy Board, Regional Development Agencies and Research Councils UK.

Higher Education Innovation Fund (HEIF)

April to June	July to September	October to December	January to March
Amber	Amber	Amber	Amber

This year we confirmed funding of £234 million to higher education institutions under HEIF3, to enable them to undertake knowledge transfer activities for 2006 to 2008 that will result in economic benefit. We allocated 70 per cent of the funding by formula to all institutions. A further £53 million was allocated to 11 projects through a competition, and £17 million was provided as

continuation funding to the Centres for Knowledge Exchange initiated under the second round of HEIF. We have monitored institutions' progress in implementing their agreed plans for using funding from the second round of HEIF and the Knowledge Transfer Capability Fund (both of which ran from 2004-05 to 2005-06).

We have been working with government partners on plans for the development of this third stream of funding beyond 2008. This is conditional on support from the Government in the Comprehensive Spending Review. We have commissioned an independent analysis of institutions' plans for HEIF3 formula funding, and have reviewed the metrics and method for calculating formula allocations. This activity has remained at an amber rating because of continued work needed to secure long-term and adequate funding for the third stream.

Good practice development

April to June	July to September	October to December	January to March
Green	Green	Green	Green

In 2006-07, we have been developing a more strategic approach to our support for the professionalisation of knowledge transfer in the HE sector. We provided support to the Institute of Knowledge Transfer for it to develop standards for staff engaged in knowledge transfer. These standards are to be used in higher education, research establishments, businesses, and other intermediary bodies such as Regional Development Agencies. The institute will also admit members trained to these standards onto their accredited programmes. In addition we provided further support for the training and development of knowledge transfer professionals by providing funding to: bodies that produce and provide training materials; the Association for University Research and Industry Links; and Praxis – the UK university technology transfer training programme. As part of a sector-led good practice programme, we also completed the first stage of developing a web resource to showcase good practices for knowledge transfer.

Third stream indicators

April to June	July to September	October to December	January to March
Amber	Amber	Amber	Green

The Higher Education-Business and Community Interaction (HE-BCI) survey is the main source of information on higher education's engagement with business and the community. HE-BCI data were gathered between November 2006 and January 2007 for activity and income relating to the academic years 2004-05 and 2005-06. This was outside the normal pattern of data collection as the process for allocating HEIF3 formula funding had delayed collection of the 2004-05 data, which is why we rated the activity as amber until December 2006. However, collecting two years of data at once was an effective way to get back to normal timing and to reduce the overall burden of data collection on institutions. Strengthened guidance and definitions were developed to improve the robustness of the data so that it could be used for funding purposes. Overall, we consider that this has resulted in a more consistent data set. Early analysis shows that there has been positive progress in most areas of higher education engagement with business. The HE-BCI report is to be published in June 2007.

Long-term third stream strategic development

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We have undertaken a number of research and evaluation projects to inform our long-term third stream policy. In particular, we commissioned an independent evaluation of our third stream funding to determine how successful it has been to date, and to improve our understanding of the needs of the sector beyond 2010-11 (the last year of the next Government Comprehensive Spending Review period).

We initiated exploratory projects to support five HEIs in taking steps towards making the third stream their second mission, after teaching. These institutions are aiming to develop new capacity to unlock demand for knowledge from regional and local businesses that are not yet engaged with higher education. The projects will be evaluated in 2007-08. We anticipate that these projects will also contribute to our objectives for employer engagement, as set out under our strategic aim for enhancing excellence in learning and teaching. We also completed a study to summarise some overseas developments focused on increasing global innovation and knowledge transfer.

We have developed a joint scheme with relevant partners to support HEIs acting as Beacons for Public Engagement, and started discussions on a more focused approach to the community and social dimension to this strategic aim. Our work on the social dimension in the next year will look particularly at achieving a greater range and level of contributions from other stakeholders and funders, in line with our key performance target on this issue.

In summary

We believe we have made good progress over the year on all objectives in this strategic aim. Significant effort has been put into long-term development work which should provide a good foundation for achieving the objectives over the 2006-11 strategic plan period. In 2007-08 we will look further at evaluating past third stream funding to inform our long-term strategy. The social and community dimensions to our work will receive greater emphasis in the coming years, and we will build on the relationships we have begun to form with a broader range of stakeholders. Building this common purpose with other stakeholders and funders both mitigates risks to HEFCE and enables the higher education sector to develop a wider range of more relevant third stream activities supported from a range of sources. As noted above, however, implementation of the next round of third stream funding is dependent on decisions to be made in the Government's Comprehensive Spending Review.

Key Performance Target	Progress to 31 March 2007
<p>KPT11: By 2007-08 to achieve wide stakeholder acceptance of the validity and relevance of a set of measures describing what is delivered by each HEI, and by the sector as a whole.</p>	<p>On target: In advance of the 2004-05 and 2005-06 survey, the HE-BCI stakeholders group selected an expert group to revise and update the accompanying guidance and definitions. The majority of respondents found the new guidance and definitions helpful. Furthermore, the higher education funding bodies in Wales and Northern Ireland have both elected to use HE-BCI data to inform their own third stream formula allocations. While there is a different funding mechanism in Scotland, the Scottish Funding Council remains committed to being part of the UK-wide process. National and UK-level data have been sought by other government departments to underpin their own key performance indicators and Comprehensive Spending Review proposals. Early feedback from the sector also suggests that time and resources are being committed to ensure the HE-BCI process is more efficient and useful for HEIs' own management information.</p>
<p>KPT12: Throughout the period, to secure year on year increases in the total contributions (both direct contributions from users leveraged through HEFCE core funds for third stream, and support from a wider range of public sources to deliver public goods) for third stream activity in the HE sector.</p>	<p>On target: Early work has started on the social strategy though progress is not yet quantifiable. The baseline for the target is HEIF funding plus the income data from HE-BCI that reflects the additional sums leveraged by HEIF funding. Data for 2006-07 will be available in early 2008.</p>
<p>KPT13: By 2007, to support up to 10 pilot projects to test methods of increasing targeted engagement with users, and by 2009-10 to reflect the results of the pilots in funding.</p>	<p>On target: We have funded five pilot projects through the Strategic Development Fund. We have secured evaluators to review progress on these projects and will feed the results into future funding arrangements</p>
<p>KPT14: Throughout the period, to demonstrate year-on-year improvement in the impact of the HE sector on business and the community.</p>	<p>On target: Data collected from 2004-05 and 2005-06 show an upward trend in impact on business and the community for most HEIs. Analysis of these data is not yet complete but early indications are that the volume of and income from activities such as collaborative research and consultancy have increased at an encouraging rate. The strategic and qualitative indicators also show positive development. The report on these data will be published in June 2007.</p>

Strategic aim: Sustaining a high quality HE sector

To sustain a high quality HE sector which adapts to the developing needs of stakeholders, and which continues to be recognised as world class.

Objectives

- To support society's intellectual, economic, social and environmental development through sustaining and growing a successful HE sector that is sufficiently vibrant and diverse.
- To promote the further development of leadership, governance and management that will help HEIs deliver and innovate by building on their individual strengths, locally, regionally, nationally and internationally.
- To sustain stakeholder confidence in HE through a risk-based accountability framework which places greater reliance on institutions' own accountability processes and demonstrates a well led, managed and governed sector.
- To promote and support continued investment in the HE infrastructure, so that it remains fit for purpose and can adapt to change, now and in the future.
- To support the continuing development of people, and of an organisational culture in HEIs, that is representative of society as a whole and delivers high quality provision now and in the future.

Risks

The key risks to achieving our strategic objectives under this aim are:

- That HEIs do not develop clear and distinctive missions that build on or develop their specific strengths regionally, nationally and internationally (as appropriate) in order to create a suitably diverse sector that continues to be recognised as world class.
- That inadequate leadership, governance or management at HEIs, whether associated with the new market conditions or other factors, has a negative impact on students, demonstrates poor use of public funding, and causes a loss of public confidence in the sector.
- That changes in market conditions – for example the introduction of variable tuition fees, rising costs, a decline in international student demand and the volume of research contracts – threaten HEIs' financial viability and ability to achieve their mission.
- That HEIs do not utilise, develop and invest appropriately in their physical infrastructure in order to support their longer-term viability.
- That the recruitment, retention and development of people in the HE sector fails to keep pace with changing demands placed upon institutions.

Making progress

The higher education sector continues to make a significant intellectual, social and economic contribution to our nation and the world. To maintain and enhance this contribution, higher education institutions must continue to build on their strengths and develop a range of missions that meet the needs of a wide range of stakeholders.

Society's development through sustaining a successful HE sector

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Issues around strategically important and vulnerable subjects have provoked intense public interest this year. We have developed a programme of work in this area totaling nearly £250 million. This includes £75 million in additional time-limited funding from 2007-08 to 2009-10 to maintain capacity in some very high-cost science subjects, while with our partners we seek to raise learner demand for them through initiatives to promote student recruitment. Work is also under way to address particular issues faced by land-based studies.

We have nine teams dedicated to supporting higher education providers in the regions of England. Regional teams act as the main interface between us and universities and colleges.

These teams are reviewing their 'Regional perspectives and priorities' (defined as the economic, demographic and educational characteristics specific to each region) and have worked with individual institutions to promote nationwide coverage of Lifelong Learning Networks, with support from our Strategic Development Fund. The fund, which is our main tool to support change management in the sector, has been reviewed and redesigned in order to meet our priorities more effectively and to reduce administrative burden on institutions. In 2006-07 it has supported employer engagement, research collaborations, and third stream mission development. The fund has also matched funding from the Learning and Skills Council in supporting London Higher, an umbrella organisation for HEIs in London, to provide a single point of contact for institutions that wish to contribute to the London Olympics and Paralympics in 2012.

Promoting further development of leadership, governance and management

April to June	July to September	October to December	January to March
Green	Green	Green	Amber

Continuous improvement of leadership, governance and management in higher education is essential if the sector is to respond to an increasingly challenging global environment, due to increasing competition from Europe and from other English-speaking countries.

Good governance of higher education institutions provides a framework of accountability to support leadership and management. A programme of work for improving governance has been identified in partnership with the Committee of University Chairmen and the Leadership Foundation for Higher Education.

Independent evaluations of the Leadership Foundation and our Leadership, Governance and Management Fund have been completed. With our sister funding councils in Scotland, Wales, and Northern Ireland, we have agreed further funding of £4.5 million for the Leadership Foundation until 2012. We are also working with the Foundation and the Association of University Procurement Officers to develop procurement capacity and capability in the sector. The Universities UK Strategic Procurement Group has been established to lead the further development of effective procurement in the sector.

We believe more use of shared services, such as accounting transaction services, can offer considerable benefits to the sector. However, these benefits may not be secured due to a delay in changing the current VAT regulations. Current regulations make bought-in services subject to VAT, which is not reclaimable. In addition, work on promoting shared services is resource-intensive and additional capacity will need to be identified at a time when resources are under increasing pressure. Due to these difficulties we have classified this activity as amber for the last three months of 2006-07.

A research study on sustainable development in the higher education sector is under way and is scheduled to report in December 2007. We have commissioned work to scope the potential of running a high-profile international conference in 2008 to disseminate the findings of the sustainable development study.

Risk-based accountability framework

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Investors in higher education – including students, banks and those who fund research – need to have confidence in the sector. Our role is to provide assurance that institutions' own accountability processes are working well and demonstrate value for money for public investment.

We have again been able to provide assurance that internal control, corporate governance and risk management in the sector are effective and that value for money is being achieved. We report this to our Audit Committee, which oversees this area on behalf of the Board and our

Accounting Officer. The National Audit Office also monitors this area of work, relying on our assurances. The Accounting Officer's review of 2006-07 is included at pages 42 to 44 of this annual report.

We have now finalised the details of a new accountability framework for institutions, to be implemented from 2008 (HEFCE 2007/11). This follows our piloting of 'the single conversation' in the past year, where institutions send us a minimal set of financial and other returns at one time rather than spread throughout the year. We are committed to reassessing the cost of accountability, and have advised the Department for Education and Skills that we will undertake this work in late 2008 or early 2009 following implementation of the new framework.

Continued investment in the HE infrastructure

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Good quality buildings, equipment and information technology support academic excellence, and we believe that individual institutions are best placed to make decisions about developing the appropriate infrastructure for their needs

In 2006-07, all our work in this area has progressed as planned. We have continued to allocate capital funding to higher education institutions totalling £1,636 million for 2006-08. This comprises £903 million for the Science Research Investment Fund, a further £88 million for research equipment, and £645 million for learning and teaching and IT capital. This funding contributes to HEIs' long-term sustainable strategies and helps address the past under-investment in their physical infrastructure. In addition we have allocated £30 million over 2006-08 to directly funded further education colleges. Indirectly funded further education colleges are able to access capital funding through their partner HEI.

The Board has agreed the new capital investment framework, which moves away from project-based methods of monitoring to a strategic evaluation of institutions' long-term sustainable investment in their physical infrastructure. Institutions were informed of the outline of the framework in March 2007.

A study to develop a framework of VAT partial exemption methods is nearing completion, and workshops on the implementation of its findings have taken place. The framework will be agreed both with the sector's finance directors and with HM Revenue and Customs (HMRC) to operate from August 2007. A further outcome of this study is agreement between the finance directors and HMRC to consider the tax implications of developments in HE activities on a regular basis.

Continuing development of people and organisational culture

April to June	July to September	October to December	January to March
Green	Green	Green	Green

The people who work in higher education are its most significant asset as well as its greatest cost, with institutions typically spending 55 to 60 per cent of their total resources on their staff. It is essential that institutions develop an organisational culture that enables people to develop to their full potential. We began to move into a more strategic role, which informs institutional planning on human resource issues rather than intervening, with the publication of the Higher Education Workforce Framework in July 2006. After five years of targeted special funding for human resources modernisation through the Rewarding and Developing Staff in HE initiative, our role will become less directive as institutions gradually implement self-assessment of their people management to inform their future human resources strategies. We are working with national bodies such as the Council of Heads of Medical Schools and the Training and Development Agency for Schools to tackle staff shortages in certain academic areas.

We seek to promote a higher education workforce which is broadly representative of society as a whole. To support institutions in achieving this we fund the Equality Challenge Unit, which has

been reconstituted with a new remit to cover student issues as well as staffing in relation to equality and diversity. Further funding of £1 million a year has been agreed until 2010. We published our equality scheme, which brings together all the strands of our equality and diversity policy, in January 2007 (HEFCE 2007/01).

In summary

Work on the activities within our strategic aim for sustaining a high-quality sector is proceeding to plan, with the exception of the shared services tasks where external circumstances are challenging. Our overall aim remains to ensure that HEIs' own systems and procedures are sufficiently robust to ensure the long-term sustainability of the sector. We are aware that we must move at an appropriate speed and have adjusted timescales for the introduction of the 'single conversation' in November 2008. The single conversation is a move to simplify HEFCE's accountability burden by placing greater reliance on institutions' own systems of management and governance, while concentrating the time spent on exchanges of information for accountability. We expect the environment for institutions to become more challenging, however, as the pace of global change increases, placing even more importance on their capability to deliver effective, strategic, market-based planning.

Key Performance Target	Progress to 31 March 2007
<p>KPT15: By 2008, to develop a baseline assessment of how the HE sector contributes to the sustainable development of society, and to demonstrate progress in this area by 2011.</p>	<p>On target: Report to be delivered by December 2007.</p>
<p>KPT16: Through increased influence of procurement expertise across all areas of non-pay expenditure, to deliver measurable benefits for re-investment across the sector worth £100 million a year by 2007-08.</p>	<p>On target: We are on track to deliver these benefits for 2007-08. Our report to the Department for Education and Skills for 2006-07 will show progress towards this target.</p>
<p>KPT17: To provide annual assurances to Parliament that internal control, corporate governance and risk management in the sector are effective, and that value for money is being achieved. To do this while reducing the cost of accountability by 20 per cent between 2004 and 2007, and by a further 10 per cent by 2011.</p>	<p>On target: We will reassess the cost of accountability in late 2008 or early 2009, following implementation of the single conversation.</p>
<p>KPT18: By 2008 all institutions will be able to identify the level of investment required to sustain their physical infrastructure. From then on, actual levels of investment across the sector demonstrate progress towards achieving sustainable physical infrastructures.</p>	<p>On target: Approaches to capital planning and investment will vary between institutions depending on their mission and management practices. However, we expect HEIs to be able to demonstrate that:</p> <ul style="list-style-type: none"> • infrastructure is sufficient in terms of quantity, fitness for purpose and condition to meet the needs of the institution • infrastructure is capable of generating an adequate income stream to cover operating, maintenance and capital costs • the level of infrastructure investment required and planned is affordable. <p>This will be assessed through the new capital investment framework, which moves away from project-based methods of monitoring to a strategic evaluation of institutions' long-term sustainable investment in their physical infrastructure.</p>
<p>KPT19: By 2010-11 the HE workforce at a sector level will have increased proportions of female staff, disabled staff, and staff from black and minority ethnic groups in senior positions, taken from a baseline established in 2003-04.</p>	<p>On target: An interim report on three-year trends from the 2003-04 baseline became available in April 2007, but is only partial until the definition of seniority of higher education staff, currently obscured by changes in pay scales, has been resolved by the Higher Education Statistics Agency.</p>

Strategic aim: Enabling excellence (our role)

To ensure that we can effectively deliver our strategic plan, working to the highest standards in all that we do.

Objectives

- To ensure that the needs of our stakeholders are met.
- To ensure optimum use of our staff and other resources by identifying and focusing on areas where we can add greatest value.
- To monitor national trends in HE and draw attention to areas of national interest or concern.

Risks

The key risks to achieving our strategic objectives under this aim are:

- That we do not secure sufficient public funds to deliver our strategic aims.
- That there is a mismatch between the Government's priorities, the views of key stakeholders and our strategic aims.
- That our leadership, governance and management capability, and management of resources, do not effectively enable the delivery of our core strategic aims.

Making progress

How we perform as an organisation has a major impact on how nearly £7 billion of public money is spent each year, how well it is accounted for, what outcomes it delivers, and how far good value for money is secured. Our performance affects how universities and colleges understand and respond to the national policies and priorities that drive our allocation of these funds. It also affects stakeholders' perceptions of the English higher education system. We are committed to continuous improvement and have made progress in identifying our strengths and areas for improvement over the year using the European Foundation for Quality Management (EFQM) Excellence Model.

Leadership

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Professor David Eastwood took up his post as Chief Executive in September 2006. The Department for Education and Skills has appointed Tim Melville-Ross as Chairman to replace David Young when his term of office ends in 2007.

Results of the 2006 survey of HEFCE staff demonstrated how successful we are in articulating our mission and strategy internally. Over 90 per cent of staff agreed that they understood how their job contributes to the Council's success.

In April 2007 we will be undertaking a self-assessment against the EFQM Excellence Model to identify strengths and further areas for improvement over the next year.

People

April to June	July to September	October to December	January to March
Green	Green	Green	Green

HEFCE employs around 240 full time equivalent staff, mostly based at our head office in Bristol, with a small secretariat at Centre Point in London. Four directors take lead responsibility for our strategic aims. They also oversee regional and institutional issues for specific regions. Staff are organised in teams, some of which deal with the development and implementation of policy or provide a corporate service. The regional teams, led by a regional consultant, are the key points of contact, information and advice for universities and colleges, and for our partner bodies in each region. They in turn are closely linked to the HEFCE assurance teams, which bring together staff responsible for institutional audit, financial health and estates.

We appreciate that we depend on high quality staff with a range of specialist skills, who can establish effective working relationships internally and externally. We believe that staff perform at their best in a culture of openness, support and mutual respect. We invest heavily in targeted individual and team development, and are recognised as meeting the 'Investors in People' standard. We also recognise that different people are motivated by different things and we are continuing to develop our framework of financial and non-financial rewards, including training and personal development and respecting the need for work-life balance. We have published an online brochure explaining this approach to potential employees (www.hefce.ac.uk, under About us/Vacancies).

During 2006-07 we implemented a new performance review system for all staff which aligns the definitions of performance with the culture we need to achieve business success.

Our staff survey results show sustained high levels of satisfaction among employees. In 2006 all the questions which were comparable with an external benchmark of high performing organisations met or exceeded the benchmark. For example, taking everything into account, 86 per cent of respondents said they were satisfied with HEFCE as an organisation to work for (compared to the benchmark of 74 per cent).

In June we were granted a 'highly commended' award for people involvement and development by London Excellence: an organisation which promotes and supports organisations in their continuous improvement activities, based on the EFQM Excellence Model.

Policy and strategy

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Our strategic plan for 2006-11 was developed in consultation with our stakeholders and published in March 2006. It sets out our mission and overarching vision as well as our aims, objectives, key strategic risks and key performance targets. The 2007 update of our strategic plan is available on our web-site (HEFCE 2007/09).

We aim to develop policy openly, transparently and to consistently high standards. In doing so, we draw on evidence from data, research and evaluation and international experience, advice from the Board's strategic advisory committees, and feedback from consultations. Details of particular policy developments in 2006-07 are included in the earlier sections of this report. Our specially commissioned research and evaluation reports are on our web-site, under Publications/Research & evaluation, as are Board papers and minutes, under About us/HEFCE's Board.

This year we developed an approach to assessing our new policies and initiatives for their impact on sustainable development, on the regulatory burden, and on their positive contribution to equality. This will be implemented from summer 2007 when it will replace our current regulatory impact assessment.

Partnership and resources

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Working in partnership is central to our capacity to deliver our strategy. We attach the greatest importance to engaging systematically with our stakeholders, including universities and colleges, different parts of Government, the other UK funding bodies and representative bodies.

In view of the transition period in 2006 between the former and present Chief Executive, we decided to delay the planned survey of our communications and relations with universities and colleges until 2007.

The theme of our annual conference in April 2006 was 'Investing in higher education to meet the country's needs'. The discussions helped us develop our confidential advice to the Government's 2007 Comprehensive Spending Review on the funding required to deliver our objectives and meet the needs of the sector. The full outcome of the Comprehensive Spending Review will be known later in 2007.

We continue to distribute our funding within a sound system of internal control, including a financial control environment that meets the requirements of government accounting. This ensures that public funds are used for the intended purposes, deliver the planned outcomes, and represent value for money. We also continue to develop our financial systems both to improve operational efficiency and to provide enhanced and timely management information.

Our own running costs will reduce by 10 per cent in real terms between 2004-05 and 2007-08. We are continuing to review our activities and processes to enable us to meet this challenge and deliver the strategic plan – as well as preparing for further efficiencies expected between 2008-09 and 2010-11.

We have recently begun work on a substantial report on higher education in England. This is due to be published in the summer of 2008 and will provide an overview of the characteristics and strengths of the higher education system, and opportunities for the future.

Processes

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We manage four key business processes, which are funding (both core and special funding), stakeholder relationship management, institutional risk, and developing and implementing policy.

We are continuing to develop these processes in light of our work on the Excellence Model and the findings of an internal audit. For example, during the year we ran internal workshops on effective stakeholder management for our stakeholder relations managers, and developed detailed guidance for staff on the policy process.

Corporate social responsibility

April to June	July to September	October to December	January to March
Green	Green	Green	Green

As a public body we believe it is important to behave in a socially responsible way, both as an organisation and through the conduct of our staff. Our corporate social responsibility policy commits us to continually improving our performance, and meeting all relevant legislation, regarding:

- conservation of natural resources used in our offices
- minimising adverse environmental effects of people travelling to and from our offices
- the behaviour of suppliers and contractors used by HEFCE
- our impact on the local and wider community
- processes that affect our employee relations and the wellbeing of our people.

Each year we publish benchmarked environmental performance indicators including data on carbon dioxide emissions, energy usage, water usage, waste disposal to landfill and recycled paper. The most recent indicators are for 2005-06 (www.hefce.ac.uk under About us/Corporate Social Responsibility).

We recognise that our performance indicators have been fairly stable and shown few improvements in recent years. We have a working group to collect and enhance the quality of our data, and a second group to identify and implement further improvements and to raise staff awareness of the issues. We are also preparing to apply for the ISO 14001 environmental management standard, which would provide external validation of the success of our system for

managing environmental impacts. Our target date for achieving this standard has been postponed from March 2007 to March 2008.

We expect to meet our targets to improve our environmental performance by March 2008.

Key performance results

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Our annual report and accounts for the year 1 April 2005 to 31 March 2006, and quarterly exception reports against our 2006-09 operating plan are available on our web-site www.hefce.ac.uk under About us.

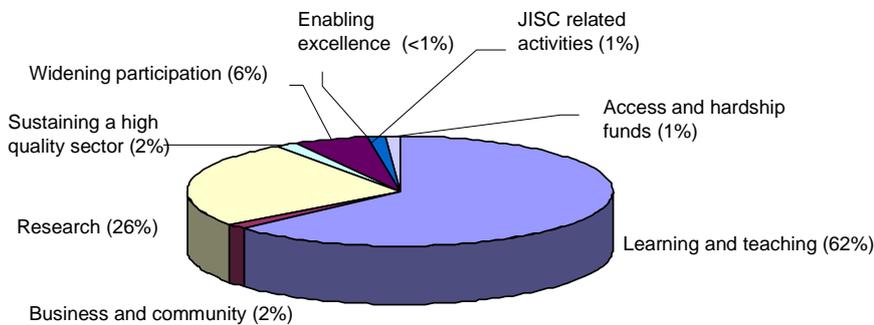
Key Performance Target	Progress to 31 March 2007
<p>KPT20: By 2008, HEFCE to be assessed by the European Foundation for Quality Management as achieving level 2 ('Recognised for Excellence'), and thereafter to maintain this standard across the remainder of the planning period.</p>	<p>On target: In 2003 we were assessed as 'Committed to Excellence' (level 1). This year we have dedicated some resource to managing our application for the award in 2008 (as recommended in an audit report). We will complete our self-assessment in April 2007 to identify further actions required in the run-up to the external assessment in 2008.</p>
<p>KPT21: Stakeholders' satisfaction with the Council to at least match relevant external benchmarks and show an improving trend over the planning period.</p>	<p>On target: We will now conduct surveys of communications and relations with universities and colleges in 2007 and 2010, rather than 2006 and 2009 as reported in our strategic plan 2006-11 (HEFCE 2006/13, page 44). We decided that it would be beneficial to allow the transition period in 2006 between the former and present Chief Executive to take place before commissioning a new survey. We still plan to conduct surveys of the perceptions of our other stakeholders in 2008 and 2011.</p>
<p>KPT22: To review our role in consultation with our stakeholders, to ensure we add maximum value in enabling the sector to meet the needs of students, the economy and society. In doing so we will consider whether any further activities could be devolved to institutions and sector-based bodies.</p>	<p>On target Work has begun to meet this target by 2009.</p>

Financial results for 2006-07

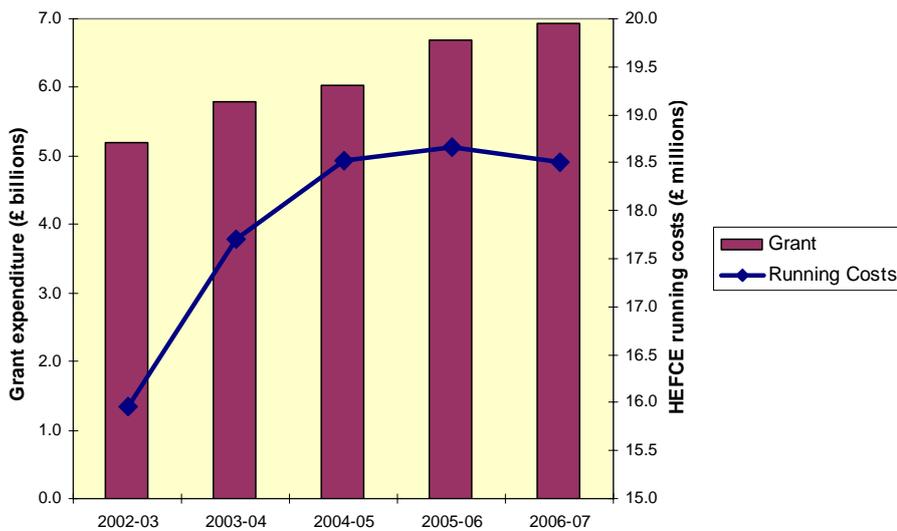
Funding and expenditure in year

In delivering the strategic objectives outlined in the previous pages, HEFCE's total income for the year 1 April 2006 to 31 March 2007 was £60.0 million (2005-06: £56.7 million). This figure does not include grant-in-aid received from the Department for Education and Skills (DfES) because this is treated as financing (and hence taken to the balance sheet) rather than as income shown on the income and expenditure account. In 2006-07 HEFCE received £6,983.3 million of grant and grant-in-aid (2005-06: £6,655.2 million).

HEFCE's total expenditure for the year was £6,963.4 million (2005-06: £6,766.9 million). Of this £6,945.0 (2005-06 £6,748.2 million) relates to grants payable to institutions and others and is paid in relation to our strategic aims as follows:



The remaining £18.4 million expenditure (2005-06: £18.7 million) relates to our internal running costs. This figure is the gross expenditure incurred in HEFCE's own running costs, and is partially offset by income contributions of £1.2 million (2005-06: £1.3 million) giving a net total of £17.2 million. As part of the Government's Efficiency Review, HEFCE has committed to a 10 per cent real terms reduction in its net running costs by 2007-08 compared with 2004-05, despite an increase in the volume and value of the grant we distribute each year.



For the current year HEFCE's running costs represent 0.25 per cent (2005-06 0.26 per cent) of the total grant we distribute to the sector.

Balances at year end

We aim to distribute the funds received each year within that year. Our Financial Memorandum with the DfES recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently we are permitted to carry forward up to 2 per cent on a cash basis of the grant-in-aid provided for distribution to institutions and for our running costs. The balance sheet as at 31 March 2007 shows a cash balance of £40.4 million (*£4.8 million in 2006*) which is within the DfES' limit.

In resource terms we are advised by the DfES that in normal circumstances we can carry forward resource balances as necessary, though there is always the risk that any unspent balances (particularly on recurrent expenditure) may have to be returned to the Treasury. We therefore aim to manage our expenditure to ensure low balances, and hence reduce any risk that the sector may be penalised. The resource balances at 31 March 2007 were as follows:

Resource balances		
	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Capital and other	56,330	(18,800)
Recurrent	(6,369)	19,600
Total	49,961	800

These balances are within the thresholds advised by DfES. The increase in the overall resource balance from 2006 reflects timing differences in the payment of grant for certain capital expenditure programmes.

The accounts are audited by the Comptroller and Auditor General, who is appointed by statute. The audit fee for the financial year 2006-07 is £40,000 and he did not provide any non-audit services during this year.

Preparation of the annual report and accounts

Our annual report and accounts are prepared in accordance with a direction given by the Secretary of State with the approval of the Treasury, in pursuance of paragraph 16(1) of Schedule 1 of the Further and Higher Education Act 1992. The annual report and accounts for 2006-07 were scrutinised by our Audit Committee on 10 May 2007 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2006-07.

Members of the Audit Committee during 2006-07 were as follows.

Chairman	Professor Nigel Savage* Chief Executive, College of Law in England and Wales
Members	James Aston MBE (to June 2006) Partner, Charity and Education, BDO Stoy Hayward
	Alastair Balls CB* (from December 2006) Chief Executive, Centre for Life
	Stephen Dexter (from July 2006) Partner, Grant Thornton UK LLP
	Professor Peter Rubin* (from December 2006) Division of Therapeutics, University of Nottingham
	Michael Sheasby Chair, Brunel University Audit Committee
	Kathleen Tattersall OBE (from July 2006) Chair, University of Manchester Audit Committee
	Professor Tim Wilson* (to November 2006) Vice-Chancellor, University of Hertfordshire
	Fraser Woodburn Secretary, Open University

* Audit Committee members who are also HEFCE Board members.

The duties of the Audit Committee are to:

1. Consider the adequacy of corporate governance, risk management and internal control within HEFCE and in HEIs through reviewing:
 - a. The mechanisms (principles and approach) adopted by the management of HEFCE for the assessment and management of risk.
 - b. The planned activity of internal and external audit designed to (inter alia) assess the systems operated by HEFCE and HEIs to achieve effective corporate governance, risk management and internal control.
 - c. The annual results of internal and external audit activity, in HEFCE and in the HE sector.
 - d. The adequacy of HEFCE management and institutional responses to issues identified by audit activity.
 - e. Formal assurances given by HEFCE management relating to the corporate governance requirements for the organisation, and summary information about corporate governance reporting in the sector.
2. On the basis of the above consideration, advise the HEFCE Board and the Accounting Officer on:
 - a. The effectiveness of risk management in HEFCE and in the HE sector.
 - b. The effectiveness of the financial and other control systems, including those for ensuring the proper protection of assets, within HEFCE and within institutions.
 - c. The scope and effectiveness of the work carried out by HEFCE's Assurance Service. This will include planning, operation and follow-up work, and the Assurance Service annual report.

- d. The criteria for the selection and appointment of HEFCE's internal audit service, including assessing the adequacy of the resources available for the work required.
- e. Any reports from the National Audit Office and the DfES Audit Service, including the response to any management letters.
- f. The remuneration of the National Audit Office for the audit work undertaken on the Board's annual accounts.
- g. The arrangements in place to promote economy, efficiency and effectiveness within HEFCE and the sector.

The full terms of reference for the Audit Committee can be found on HEFCE's web-site at www.hefce.ac.uk under About us/HEFCE's Board and committees.

Audit information

So far as the Accounting Officer is aware, there is no relevant audit information of which HEFCE's auditors are unaware. The Accounting Officer has taken all the steps he ought to have taken to make himself aware of any relevant audit information and to establish that HEFCE's auditors are aware of that information.

Going concern

The balance sheet at 31 March 2007 shows net liabilities of £186.5 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future grants or grants-in-aid from HEFCE's sponsoring department, the DfES. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Recurrent and capital resources for 2007-08, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in the department's estimates for that year, which have been approved by Parliament. There is no reason to believe that the department's future sponsoring and future parliamentary approval will not be forthcoming. It has therefore been considered appropriate to prepare these accounts on a 'going concern' basis.

Payment of creditors

We are fully committed to the prompt payment of suppliers and we support HM Treasury's Better Payment Practice Code. We aim to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of satisfactory goods or services or the presentation of a valid invoice, whichever is later. All suppliers have been notified of this commitment and have been given clear guidelines to help us achieve this aim. Throughout the year we monitor performance against the 30 day target. During the financial year 2006-07 the target was met for 99 per cent of invoices (2005-06: 93 per cent).

Professor David Eastwood
Chief Executive and Accounting Officer
Higher Education Funding Council for England
31 May 2007

Remuneration report

Part one - unaudited

Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2006-07 were:

David Young, chairman of HEFCE
Jackie Fisher CBE, HEFCE Board member
Peter Saraga OBE, HEFCE Board member

The terms of reference for the remuneration committee are as follows:

- To make recommendations to the Board on the terms and conditions of employment of the Chief Executive.
- To support the Chairman in monitoring the performance of the Chief Executive and in assessing his entitlement to performance-related pay.
- To agree the terms and conditions of employment of other directors.
- To carry out an annual review of the remuneration of directors.
- To review the aims of the annual pay remits, which seek authority from the DfES for the nature and scale of pay awards to Council staff, delegating the details to the Chief Executive.

For the Chief Executive post, remuneration is determined by approval of the Secretary of State for Education and Skills. Each year, the Remuneration Committee assesses the performance of the Chief Executive, resulting in a one-off cash bonus (up to a maximum of 10 per cent of basic salary for 2006-07) determined in accordance with a scale agreed in advance with the DfES (and subsequently approved by the Secretary of State for Education and Skills). Any revalorisation of base pay is, subject to the approval of the Secretary of State for Education and Skills, normally in accordance with Senior Salaries Review Body guidelines.

For directors, the Remuneration Committee reviews performance, based on the same performance review system as used for all other Council staff, with pay consequences being determined by the pay system which governs all HEFCE staff.

The length of contracts of employment for the Chief Executive is determined by the Secretary of State for Education and Skills. Contracts for directors are open ended. The contract for the Chief Executive stipulates a 12 month notice period; for directors, it is three months. Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination. The Chief Executive was appointed for a six year contract which began in September 2006.

Membership of the Board

The Board consists of up to 15 members, including the Chairman and Chief Executive of the Council. With the exception of the Chief Executive, Board members are appointed for an initial term of two or three years by the Secretary of State for Education and Skills. Appointments are made on the basis of expertise in the field of higher education or experience in industry or the professions.

The Chief Executive is appointed by the other members of the Board with the approval of the Secretary of State.

Part two - audited

Emoluments of the Chairman

Emoluments of the Chairman are decided by the Department for Education and Skills. The HEFCE Chairman receives a salary but does not participate in the Council's pension scheme. The position is for two days per week and the total salary for **David Young**, HEFCE Chairman for the year ended 31 March 2007, was £46,838 (2005-06: £43,959), including a non-consolidated bonus of £2,000.

Emoluments of the Chief Executive

The amount of the Chief Executive's bonus is decided by the Remuneration Committee, who review performance against an annual personal responsibility plan agreed by the Chairman. The bonus is also approved by the Secretary of State. On 1 September 2006 David Eastwood was appointed HEFCE Chief Executive. From 1 February 2006 until that time Steve Egan was Acting Chief Executive. The relevant details for both these individuals are shown below.

The total emoluments including taxable benefits for **Professor David Eastwood**, HEFCE Chief Executive from 1 September 2006, were as follows:

Chief Executive			
		Year ended 31 March 2007 £	Year ended 31 March 2006 £
Salary	a	112,291	-
Taxable benefits	b	126	-
Employer's pension contributions	c	14,292	-
Total		126,709	-

- a For the period from 1 September 2006; full year equivalent £192,500 (including a non-consolidated bonus of up to 10 per cent).
- b Payment of a non-recurring relocation allowance of £6,403 and a gross monthly allowance for home Broadband connection, full year equivalent £216.
- c For the period from 1 September 2006; full year equivalent £24,500. Professor David Eastwood is a member of the Universities Superannuation Scheme (USS).

From the period 1 February 2006 to 31 August 2006 **Steve Egan** was HEFCE Acting Chief Executive. His total emoluments for that period, analysed over the relevant financial years, were as follows:

Acting Chief Executive			
		Year ended 31 March 2007 £	Year ended 31 March 2006 £
Salary	a	57,000	20,000
Taxable benefits	b	90	36
Employer's pension contributions	c	12,750	4,920
Total		62,840	24,956

- a For the period to 31 August 2006; full year equivalent £127,000 (including a non-consolidated bonus of £7,000).
- b Allowance for home Broadband connection; full year equivalent £216.
- c For the period to 31 August 2006; full year equivalent £30,600.

For the period to 31 January 2006 **Sir Howard Newby CBE** was HEFCE Chief Executive. His total emoluments including taxable benefits for 2005-06 are shown below for comparative purposes:

Chief Executive (2005-06)

		Year ended 31 March 2007 £	Year ended 31 March 2006 £
Salary	a	-	131,558
Taxable benefits	b	-	15,578
Employer's pension contributions	c	-	18,708
Total		-	165,844

- a For the period to 31 January 2006; full year equivalent £155,075 (including a performance-related bonus of up to 10 per cent).
- b Payment of a gross monthly accommodation allowance of £1,538 (as approved by the Remuneration Committee and the Secretary of State) in lieu of hotel costs; and allowance for home Broadband connection, full year equivalent £216.
- c For the period to 31 January 2006; full year equivalent £22,000. Sir Howard Newby was a member of the Universities Superannuation Scheme (USS).

Emoluments of other Board members

Other Board members are eligible to receive an annual honorarium of £5,000, which is not pensionable.

HEFCE Board members

	Year ended 31 March 2007 £	Year ended 31 March 2006 £
Alastair Balls CB (from 1 December 2006)	1,667	-
Steve Bundred (to 30 September 2005)	-	2,500
Richard Coldwell (to 30 November 2006)	3,333	5,000
Professor David Eastwood (to 31 August 2006)	2,083	3,333
Jackie Fisher CBE	5,875	5,875
Dame Patricia Hodgson	5,000	2,500
Dr Beverly Malone (to 31 December 2006)	4,406	5,875
Professor Sir Gareth Roberts (to 31 August 2005)	-	2,083
Professor Peter Rubin	5,000	5,000
Peter Saraga OBE	5,000	5,000
Professor Nigel Savage	5,875	5,875
Professor Sir Peter Scott (to 30 November 2006)	3,917	5,875
Ed Smith	5,875	5,875
Sir Richard Sykes	5,875	5,875
Ann Tate	5,875	5,875
Professor Paul Wellings (from 1 September 2006)	2,917	-
Professor Dianne Willcocks (from 1 December 2006)	1,960	-
Professor Tim Wilson (from 1 August 2005)	5,875	3,917
	70,239	70,458

In addition to the payments shown above, £1,175 (2005: £0) was charged for the services of the independent advisory member **Georgina Butcher**.

In lieu of an honorarium some of the Board members shown above are paid directly by their employing institutions, with the subsequent reimbursement from HEFCE to these institutions including VAT. Of the total reimbursement to the institution the Board member receives £5,000 in lieu of an honorarium for their services provided.

- **Jackie Fisher CBE** is paid by Newcastle College.
- **Dr Beverly Malone** is paid by the Royal College of Nursing.
- **Professor Nigel Savage** is paid by the College of Law.
- **Professor Sir Peter Scott** is paid by Kingston University.
- **Ed Smith** is paid by PricewaterhouseCoopers.
- **Sir Richard Sykes** is paid by the Imperial College of Science, Technology and Medicine.
- **Ann Tate** is paid by the University of Northampton.
- **Professor Dianne Willcocks** is paid by York St John University.
- **Professor Tim Wilson** is paid by the University of Hertfordshire.

Salary and pension entitlements for senior employees

The Council is structured around four directorates which align with the core strategic aims in HEFCE's 2006-11 strategic plan. Salary and pension details are given for the senior employees responsible for these directorates during 2006-07. Figures shown are full year values unless otherwise stated.

Salary entitlements		Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Professor David Eastwood , Chief Executive (from 1 September 2006)	a	110-115	-
Steve Egan , Acting Chief Executive (from 1 February to 31 August 2006)	b	55-60	20-25
Steve Egan , Deputy Chief Executive (from 13 September 2006)	c	60-65	80-85
Sir Howard Newby CBE , Chief Executive (to 31 January 2006)	d	-	145-150
Robin Jackson , Acting Director - Corporate Resources (from 1 January 2006 to 31 August 2006)	e	35-40	20-25
Ian Lewis , Acting Principal Finance Officer (from 23 January 2006 to 31 August 2006)	f	30-35	15-20
Liz Beaty , Director - Learning and Teaching		90-95	90-95
John Rushforth , Director - Widening Participation (to 5 February 2006)	g	-	80-85
John Selby , Acting Director - Widening Participation (from 16 January 2006)	h	85-90	10-15
Rama Thirunamachandran , Director - Research and Knowledge Transfer		90-95	90-95

a For the period from 1 September 2006; full year salary £190-£195,000.

b For the period to 31 August 2006; full year salary £125-£130,000.

c For the period from 1 to 12 September 2006 Steve Egan was Director - Finance and Corporate Resources. On 13 September 2006 he was appointed Deputy Chief Executive and Director of Finance and Corporate Resources. Full year salary £105-£110,000. The comparative figure for 2005-06 shows salary received for the position of Director - Finance and Corporate Resources.

d For the period to 31 January 2006; full year salary £170-£175,000.

e For the period to 31 August 2006; full year salary £90-95,000.

f For the period to 31 August 2006; full year salary £75-80,000.

g For the period to 5 February 2006; full year salary £90-£95,000.

h For the period from 16 January 2006; full year salary £90-95,000.

Remuneration shown above includes both salary and benefits in kind. Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances, ex-gratia payments and any other taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by the Inland Revenue as a taxable emolument. The only benefit in kind payable to staff other than the Chief Executive is an allowance of up to £216 per annum for the use of broadband. Full details of the taxable benefits paid to the Chief Executive are shown on page 35.

Pension benefits					
	Accrued pension at age 60 at 31 March 2007	Real increase in pension at age 60	CETV* at 31 March 2007	CETV at 31 March 2006 or start date	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Professor David Eastwood, Chief Executive					
Pension	55-60	2.5-5	674	607	40
Lump sum	165-170	30-32.5			
Steve Egan, Deputy Chief Executive					
Pension	35-40	2.5-5	667	605	46
Lump sum	115-120	7.5-10			
Robin Jackson, Acting Director - Corporate Resources					
Pension	10-15	2.5-5	267	226	48
Lump sum	n/a	n/a			
Ian Lewis, Acting Principal Finance Officer					
Pension	20-25	0-2.5	455	410	28
Lump sum	n/a	n/a			
Liz Beaty, Director - Learning and Teaching					
Pension	5-10	0-2.5	118	88	24
Lump sum	n/a	n/a			
John Selby, Acting Director - Widening Participation					
Pension	35-40	10-12.5	896	655	245
Lump sum	115-120	30-32.5			
Rama Thirunamachandran, Director - Research and Knowledge Transfer					
Pension	20-25	0-2.5	269	251	16
Lump sum	60-65	2.5-5			

*CETV: Cash Equivalent Transfer Value.

Civil Service pensions

The Civil Service pension scheme is an unfunded multi-employer defined benefit scheme notionally backed by the Government. The Council is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2006-07, employers' contributions were payable at one of four rates in the range of 17.1 per cent to 25.5 per cent (2005-06: 16.2 per cent to 24.6 per cent) of pensionable pay based on salary bands. Employer contribution rates are reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

There are three Civil Service pension schemes, Classic, Classic Plus, and Premium, providing benefits on a final salary basis at a normal retirement age of 60 (age 65 for new entrants). Benefits accrue at a rate of 1/80th (Classic) or 1/60th (Classic Plus and Premium) of pensionable pay for each year of service. A lump sum equivalent to three years' pension can be payable on retirement, either automatically (Classic), or in return for a reduction in the annual pension (Classic Plus and Premium). Members of the Civil Service pension pay contributions of 1.5 per cent (Classic) or 3.5 per cent (Classic Plus and Premium) of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay (Classic) or three times pensionable pay (Classic Plus and Premium) and also provides a service enhancement on computing the spouse's pension. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Universities Superannuation Scheme

Certain staff transferring from higher education institutions can opt to remain in the Universities Superannuation Scheme (USS). The USS is a multi-employer defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. The Council is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis. USS members pay contributions of 6.35 per cent of pensionable earnings. For 2006-07 the rate of employers' contributions was 14 per cent (*2005-06: 14 per cent*). On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the USS pays a lump sum benefit of three times pensionable pay.

In accordance with HM Treasury guidance HEFCE has accounted for both Civil Service and USS pensions as if they were defined contribution schemes.

Employees joining the Council after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension from one or more of a panel of four appointed stakeholder pension providers with an employer contribution. As at 31 March 2007 no HEFCE employee has a partnership pension account (*2006: one employee*).

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their cost. CETVs are calculated within the guidelines and framework prescribed by the Institute of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement), and uses common market valuation factors for the start and end of the period.

*Professor David Eastwood
Chief Executive and Accounting Officer
Higher Education Funding Council for England
31 May 2007*

Statement of HEFCE's and the Chief Executive's responsibilities

Under section 16 of schedule 1 to the Further and Higher Education Act 1992, the Higher Education Funding Council for England (HEFCE) is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Education and Skills, with the consent of the Treasury. The accounts are prepared on an accruals basis (modified by the revaluation of fixed assets) and must show a true and fair view of HEFCE's state of affairs at the year end, and of its income and expenditure and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by the Secretary of State for Education and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the annual accounts.
- Prepare the annual accounts on a going concern basis.

The Accounting Officer for the Department for Education and Skills has designated the Chief Executive as the Accounting Officer for HEFCE. The responsibilities of an Accounting Officer – including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HEFCE's assets – are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

Statement by the Chief Executive on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Council's strategic aims and objectives, while safeguarding the public funds and Council assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I also acknowledge my responsibilities in respect of the funds provided to the Council which are transmitted to higher and further education institutions and others for education, research and associated purposes.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance. The system is based on a continuing process designed to identify and prioritise the risks to the achievement of the Council's strategic aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and this statement accords with Treasury guidance.

Capacity to handle risk

The Council's current approach to risk management is set out in HEFCE's Assurance Framework which was approved by the Board in April 2003 and is available on both our internal and external web-sites, see www.hefce.ac.uk under About us/HEFCE's approach to risk management. The Assurance Framework explains the Council's risk management policy, defines key roles and responsibilities and sets out how risk management has been embedded in the Council's strategic and operational planning processes.

While I am ultimately responsible for ensuring the system of internal control is effective in managing the Council's risks. I am supported in this process by my directors and senior management team.

Against the strategic aims and cross-cutting themes as set out in HEFCE's 2006-11 strategic plan, we have identified a total of 22 strategic risks. Each strategic aim or cross-cutting theme is allocated to either the Deputy Chief Executive or one of the three other directors, and as a result they are also the identified owners of the related strategic risks. Assurance relating to these responsibilities is provided to me by each director in an annual assurance statement. These statements refer to the strategic risks that they have been responsible for managing, along with any other responsibilities which contribute to our risk management and internal control system (specifically including responsibilities relating to regions, HEIs, related bodies and key business processes).

The directors are supported in this process by their assigned but independent directorate assurance team (DAT), who provides them with assurance as appropriate on the management of their strategic risks and associated responsibilities within their directorate. The assurance statement from the Deputy Chief Executive in his capacity as Director of Finance also covers the key financial processes and controls that he is directly responsible for.

The risk and control framework

The Council's approach to risk management is based on a process designed to identify the significant risks to achieving HEFCE's strategic aims and objectives, to evaluate the nature and extent of these risks and to manage them effectively, efficiently and economically. HEFCE's Assurance Framework sets out more fully the Council's risk management policy. Central to this policy is the clear relationship between our strategic risks and the achievement of our strategic objectives. In 2006 we updated our planning framework which provides an overview of our approach to planning, resourcing and risk management. It is a high level document which outlines the broad principles we would expect to be adopted throughout the Council and provides sources of further information or guidance. The framework also sets out the responsibilities of the key roles and teams involved in the planning process, in relation to planning, risk management and resourcing.

Our strategic risks for 2006-07 were identified alongside the development of our 2006-11 strategic plan, and therefore relate directly to one of the six strategic aims or cross-cutting themes identified in the plan. The monitoring of these strategic risks is now fully embedded in the process to monitor our operational performance and the associated reports. Quarterly reports, which go to the Chief Executive's Group (CEG) and the Board, provide a summary of the 22 strategic risk scores, highlighting the highest scoring risks, explaining any movements in risk scores and providing a total risk score for the portfolio of risks to enable the overall movement in the risk portfolio to be monitored over time. This quarterly monitoring system aims to identify new and changing risks, to confirm that controls are operating in respect of the key risks, and to evaluate the effectiveness of those controls.

We update our strategic plan each year but undertake a full review every three years. Our strategic plan for the period 2006-11 was published in March 2006 and updated in April 2007. Our mission statement and four core strategic aims remain unchanged.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Council who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

HEFCE's system of internal control provides a framework for all the processes and activities designed to give reasonable assurance regarding achievement of objectives. The system is designed to manage, rather than eliminate, the risk of failure. It must also take into account the funds provided by the Council which are transmitted to higher and further education institutions and related bodies for education, research and associated purposes. The Council's accountability framework therefore needs to encompass our internal operational and financial controls, and our controls in relation to higher and further education institutions and related bodies.

The accountability framework consists of policies, procedures, monitoring and communication which collectively contribute to the delivery of strategic objectives and maintenance of a sound system of internal control. Specific developments during 2006-07 include:

- At the beginning of the year we issued letters to all HEIs notifying them formally of our risk assessments.
- During the year we piloted with 10 institutions a streamlined approach to the submission of accountability information – the 'single conversation'.

- We also finalised our plans for the audit work in institutions that will be undertaken by our Assurance Service from 2007-08 – the 'HEFCE Assurance Review'.

Continual review and monitoring of internal control is also carried out by the Deputy Chief Executive and directors. As part of the effectiveness review process I have sought assurance from them on these controls (via their assurance statements), and I then also review the key annual controls which inform *this* statement. I also receive a statement on internal control from the Executive Secretary of the Joint Information Systems Committee, and an annual opinion from the Audit Committee and the Quality Assessment Learning and Teaching Committee.

Each of the key annual controls (directors' assurance statements, the production of the financial statements, the Assurance Service annual report and the Internal Audit annual report) has been considered by the Audit Committee (with onward reports to the Board). I have discussed my effectiveness review with the Audit Committee and the Board and taken advice from them on the implications; where appropriate, action has been taken or is planned to address the issues arising.

During the year, our control systems (which cover our internal controls and the risk management system for institutions and related bodies) have identified issues that required specific actions to manage the associated risks. Details of the most significant issues and the actions taken have been recorded in the individual assurance statements referred to above. I do not consider that any of these issues indicates a significant weakness in our internal controls which would warrant disclosure here.

Professor David Eastwood
Chief Executive and Accounting Officer
Higher Education Funding Council for England
31 May 2007

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Higher Education Funding Council for England for the year ended 31 March 2007 under the Further and Higher Education Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Higher Education Funding Council for England, Chief Executive and auditor

The Higher Education Funding Council for England and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Higher Education Funding Council for England and the Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary and the information in the Remuneration Report that is described in that report as being unaudited, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Higher Education Funding Council for England has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Higher Education Funding Council for England's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Higher Education Funding Council for England's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Higher Education Funding Council for England and Chief Executive in the preparation of the financial statements,

and of whether the accounting policies are most appropriate to the Higher Education Funding Council for England's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills, of the state of the Higher Education Funding Council for England's affairs as at 31 March 2007 and of its net expenditure for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills; and
- information given within the Annual Report, which comprises the Management Commentary and the information in the Remuneration Report that is described in that report as being unaudited, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourm
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
6 June 2007

Income and expenditure account for the year to 31 March 2007

	<i>Note</i>	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000 re-stated
Income	3	59,982	56,668
Expenditure			
Grants payable to institutions and others			
Recurrent and non-recurrent grant	4	6,867,533	6,661,903
Access and hardship funds	4	76,821	83,103
Capitalised assets transferred as grant	7b	1,651	0
Amortisation, impairment, and write-off	7b	435	3,189
Additional charge to provision in year	12	0	15
Provision reversed unused in year	12	(1,480)	0
		6,944,960	6,748,210
Council administration costs			
Staff costs	5	11,388	11,262
Other administration	6	6,979	7,238
Depreciation	7a	87	158
		18,454	18,658
Total expenditure		6,963,414	6,766,868
Total net expenditure before interest		6,903,432	6,710,200
Notional interest on capital	8	(8,610)	(9,303)
Unwinding of discount	12	6,043	6,261
Effect of change in discount rate	12	0	21,783
Total net expenditure after interest		6,900,865	6,728,941
Reversal of notional interest on capital		8,610	9,303
Net expenditure for the year transferred to general reserve		6,909,475	6,738,244

All HEFCE operations are continuing.
There were no gains or losses other than the net expenditure for the year.

The notes on pages 50 to 74 form part of these accounts.

Balance sheet as at 31 March 2007

	Note	As at 31 March 2007 £'000	As at 31 March 2006 £'000 re-stated
Fixed assets			
Tangible assets	7a	73	96
Intangible assets	7b	0	2,086
		73	2,182
Current assets			
Repayable grants to institutions	9a		
falling due within one year		4,235	2,540
falling due after one year		19,333	17,376
Loans to staff	9b	0	2
Debtors	9c	14,945	24,136
Cash at bank and in hand	10	40,417	4,847
		78,930	48,901
Creditors			
Amounts falling due within one year	11	(4,969)	(28,041)
		73,961	20,860
Net current assets			
		74,034	23,042
Total assets less current liabilities			
Provisions for liabilities and charges	12	(260,555)	(283,341)
		(186,521)	(260,299)
Total net assets/(liabilities)			
Represented by			
Reserves			
General reserve	14a	(186,521)	(260,299)
		(186,521)	(260,299)

Professor David Eastwood
 Chief Executive
 Higher Education Funding Council for England

31 May 2007

The notes on pages 50 to 74 form part of these accounts.

Cash flow statement for the year to 31 March 2007

	Note	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000 re-stated
Operating activities			
Receipts			
Other programme receipts		62,623	58,522
Other running costs receipts		1,402	1,243
Repayment of institution repayable grants		2,717	2,458
Repayment of staff loans		4	3
		66,746	62,226
Payments			
Programme funding paid in year		6,989,962	6,775,462
Running costs paid in year		18,027	18,583
Repayable grants to institutions		6,369	5,875
Loans to staff for approved purposes		2	4
		7,014,360	6,799,924
Net cash inflow/(outflow) from operating activities	15a	(6,947,614)	(6,737,698)
Capital expenditure			
Purchase of tangible fixed assets		(69)	(44)
Purchase of intangible fixed assets		0	(1,899)
		(69)	(1,943)
Net cash outflow from capital expenditure		(69)	(1,943)
Financing			
Grant and grant in aid received through the Department for Education and Skills	2	6,983,253	6,655,187
Net cash inflow/(outflow)		35,570	(84,454)

The notes on pages 50 to 74 form part of these accounts.

1 Accounting policies

Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Education and Skills, with the consent of the Treasury and in accordance with the Further and Higher Education Act 1992. They are prepared in accordance with the 2006-07 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

Accounting convention

The accounts are prepared under the historical cost convention, modified by revaluation of IT assets, on the basis that revaluation of other assets does not have a material effect on the accounts.

Going concern

The balance sheet at 31 March 2007 shows net liabilities of £186.5 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future funding from HEFCE's sponsoring department, the Department for Education and Skills (DfES). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need.

Funding for 2007-08, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'going concern' basis.

Basis of consolidation

HEFCE contributes to the funding of certain other organisations (referred to as related bodies). Funding is given through grants for the purpose of benefiting the Higher Education (HE) sector as a whole, rather than with the intention of making a long-term investment. A full list of related bodies is given in note 19 of the accounts.

These related bodies are examined both individually and in aggregate, to assess whether they meet the requirements for consolidation in line with UK GAAP and FRoM. For each body the level of HEFCE influence is considered, together with the materiality of the grant funding given during the financial year. For the financial year ended 31 March 2007 HEFCE considers that none of the related bodies should be consolidated.

Financial instruments

Financial Reporting Standard (FRS) 13 requires organisations to disclose information on the possible impact of financial instruments on its risk profile, and how these risks might affect the organisation's performance and financial condition. As a non-departmental public body (NDPB) funded by the Government, HEFCE is not exposed to any liquidity or interest rate risks. HEFCE has no overseas operations and does not operate any foreign currency bank accounts; as such it is not subject to any foreign currency risks.

Fixed assets

Intangible fixed assets

Expenditure on the acquisition of information content licences, where there are fee-generating sub-licences to subscribers which represent a future economic benefit, is capitalised as an intangible fixed asset. The licences are capitalised at the value of the minimum payments guaranteed by the licensor and amortised over the term of the licence (or over a maximum of five years if the licence is granted in perpetuity), where the cost of the licence exceeds £10,000. An impairment review is carried out in the first year of capitalisation and annually thereafter.

Tangible fixed assets

Tangible fixed assets are capitalised where the costs for an individual asset, or group of functionally interdependent assets, exceeds £10,000. On initial recognition, assets are measured at cost. Where material, assets are revalued each year in accordance with indices produced by the Office for National Statistics.

Depreciation is shown on all tangible fixed assets, at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

Leasehold improvements	10 years
Fixtures, fittings and furniture	5 years
Office equipment	4 years
Computer equipment	3 years

A full year's depreciation is provided in the year of acquisition and none in the year of disposal.

Grants from the Department for Education and Skills

All grant-in-aid from the DfES is treated as financing as it is a contribution from controlling parties giving rise to a financial interest. It is recorded as financing in the cash flow statement and credited to the general reserve.

DfES also provides grants for Access to Learning funds and Postgraduate Certificates of Education. These grants are accounted for as financing and credited to the general reserve.

Income

Income is received from the Office for Fair Access (OFFA) in respect of services provided under a service level agreement covering financial, payroll, IT and other office services. Miscellaneous income is also received from other organisations and this is accounted for on an accruals basis.

Joint initiatives and national programmes which benefit the higher education sector in the whole UK

These joint activities do not create 'an entity carrying on a trade or business of its own' and so meet the definition of a 'joint arrangement that is not an entity' under FRS 9 on associates and joint ventures. The cashflows, programme and administration costs associated with these activities are accounted for in full within these accounts. The other funding bodies'

share of the costs of these activities are accounted for as income rather than financing, on the basis that they are not controlling parties in terms of HEFCE's financial statements.

The difference between the cost of the other funding councils' share of the activities and the funding provided by them to HEFCE in the year is included within programme debtors or creditors as appropriate.

Leases

Rentals payable for operating leases are charged to the income and expenditure account when they fall due.

Notional costs

The FReM requires NDPBs to disclose the full cost of their activities in their accounts. HEFCE has therefore included in its accounts charges for the notional cost of capital. The cost of capital has been arrived at by using the HM Treasury prescribed rate of 3.5 per cent per annum of the average capital employed. In accordance with HM Treasury guidance, non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

Payment of grants to institutions

Grants to institutions are recognised at the payment dates agreed with the institutions. Most grants are paid on agreed profiles, and as such no financial year end accruals are expected for these streams of expenditure.

The exception to this is holdback of basic grant adjustments arising from revised student numbers which are recognised at the point there is agreement on the student numbers between HEFCE and the relevant institution. These result in a net debtor or creditor balance, to the extent that the funding adjustments made to future profile payments have not been fully made or recovered before the financial year end. These include holdback of funds where the institution fails to meet student numbers, and reinstatement of funds held back where institutions meet student number targets that they failed to meet in the previous academic year.

Repayable grants to institutions are recognised at the payment date agreed with the institution. Repayable grants are repaid through profiled deductions from future grants.

Pensions

HEFCE employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This is a multi-employer defined benefit scheme (treated for accounting purposes as a defined contribution scheme), and is described in more detail in the remuneration report.

Provisions for liabilities and charges

Provisions are recognised when HEFCE has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision has been recognised for inherited staff liabilities. In accordance with FRS 12 the value shown has been discounted to its net present value.

Taxation

HEFCE does not trade and hence is not liable for corporation tax. Most of HEFCE's activities are outside the scope of VAT. Output tax is however charged on services provided to OFFA, and as a result HEFCE became registered for VAT from 1 January 2005. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

2 HM Government grants received

This note shows the total grant and grant in aid received from the Department for Education and Skills during the year. Grant and grant in aid is paid from the Department's Resource Accounts and is taken to the general reserve as shown below.

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000 re-stated
Access Funds		
Grants from the Department for Education and Skills:		
Access to Learning Funds	65,719	71,760
Post Graduate Certificate in Education (PGCE)	11,938	10,511
	77,657	82,271
Programmes		
Grant in aid from the Department for Education and Skills:		
Financing for recurrent expenditure in HE	5,895,835	5,667,674
Financing for capital expenditure in HE	992,663	888,350
	6,888,498	6,556,024
Running costs		
Grant in aid from the Department for Education and Skills	17,098	16,892
Total Grant and Grant in aid received	<u>6,983,253</u>	<u>6,655,187</u>

The Council is advised of its total funding in the annual grant letter from the Secretary of State. As well as setting out the details of the funding made available to the Council the letter outlines the main policy areas and strategic objectives within which the Council is expected to operate.

The grant letter is available on the Council's web-site www.hefce.ac.uk under Finance and assurance/Finance and funding/Grant letter form DfES.

3 Income

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Programmes		
Income receivable from other funding councils:		
Department for Employment and Learning Northern Ireland	2,352	1,446
Higher Education Funding Council for Wales	3,791	2,798
Learning and Skills Council	31,693	33,133
National Council for Education and Training Wales	1,725	1,169
Scottish Further Education Funding Council	1,797	1,983
Scottish Higher Education Funding Council	7,585	4,969
Income from European Social Fund	3,217	2,628
JISC subscription income	1,449	4,659
Other programme income	5,130	2,629
	58,739	55,414
Running costs		
Income receivable from other funding councils:		
Department for Employment and Learning Northern Ireland	298	257
Higher Education Funding Council for Wales	132	59
Learning and Skills Council	223	414
National Council for Education and Training Wales	113	24
Office of Science and Innovation	0	45
Scottish Further Education Funding Council	117	39
Scottish Higher Education Funding Council	169	141
Receipts from the Office for Fair Access for services provided under the service level agreement	109	177
Income from activities:		
Conferences	42	37
Publications	4	4
Reimbursement for international projects	13	36
Miscellaneous	23	21
	1,243	1,254
Total income	59,982	56,668

HEFCE receives income from other funding councils in respect of agreed contributions towards joint initiatives and national programmes which benefit the higher education sector within the whole UK. Such national initiatives include the Research Assessment Exercise (RAE) and the work of the Joint Information Systems Committee (JISC). As well as funding their share of the programme costs of the JISC, these other funding councils share the costs incurred by HEFCE in managing and administering these programmes. Parts of these activities are run from within certain universities and are provided under oversight arrangements monitored by JISC.

4 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Recurrent grant ^a		
Learning and teaching	3,849,383	4,083,388
Widening participation	321,898	175,872
Research	1,306,949	774,122
	5,478,230	5,033,382
Non-recurrent grant ^b		
Learning and teaching	522,038	634,730
Widening participation	62,238	57,915
Research	491,591	552,133
Business and community	115,326	100,634
Sustaining a high quality sector	100,808	210,187
Excellence in delivery	965	1,210
JISC-related activities ^c	96,337	71,712
	1,389,303	1,628,521
Total recurrent and non-recurrent grant	6,867,533	6,661,903
Access and hardship funds ^d	76,821	83,103
Total grant	6,944,354	6,745,006

This analysis of grant expenditure reflects HEFCE's strategic aims as published in the strategic plan for 2006-11 (HEFCE 2006/13, updated in April 2007 see HEFCE 2007/09), available to view at www.hefce.ac.uk under Publications. In previous years grant funding has been shown under the separate strategic themes of 'Building on institutions' strengths' and 'Leadership, governance and management'. Following consultation with the sector these two themes have now been combined under the strategic aim of 'Sustaining a high quality sector', as shown in the classification above.

The HEFCE Board certifies that government grants have been used by the Council only for approved purposes.

- a Recurrent grant** - the grant allocated to institutions as a block grant, analysed across teaching, research and widening participation in line with the way the grant is announced. For the first four months of the financial year 2005-06 all recurrent grant was classified as 'basic grant funding' under the 'Learning and teaching' theme. From 1 August 2006 onwards basic grant funding was split out into its component themes in order to provide a more accurate and meaningful analysis.
- b Non-recurrent grant** - this is a summary of the grant expenditure on special funding programmes and earmarked capital. A detailed analysis of non-recurrent grant expenditure by strategic aim is provided at Appendix 1 to the Accounts.
- c JISC-related activities** - these are shown separately, as they are relevant to several of HEFCE's strategic aims.
- d Access and hardship funds** - this covers both Access to Learning Funds and PGCE and is shown separately as these funds are granted by the DfES specifically for HEIs to provide financial help for those whose access to higher education is inhibited by financial considerations or who face difficulties associated with their living costs.

5 Staff costs

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Staff directly employed by HEFCE		
Salaries	8,367	8,112
National Insurance contributions	729	701
Pension costs	1,765	1,554
	<u>10,861</u>	<u>10,367</u>
Costs of employing contract, agency and temporary staff	527	895
	<u>11,388</u>	<u>11,262</u>

Staff numbers

	Year ended 31 March 2007 FTE	Year ended 31 March 2006 FTE
The average Full Time Equivalent (FTE) number of staff employed excluding the Chief Executive but including the four directors, was:		
Finance & Corporate Resources Directorate	125	126
Learning & Teaching Directorate	31	30
Research & Knowledge Transfer Directorate	35	32
Widening Participation Directorate	35	35
Chief Executive central and support staff	14	19
	<u>240</u>	<u>242</u>
Average number of contract, agency and temporary staff	16	28
	<u>256</u>	<u>270</u>

Salaries

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, and any other allowance to the extent that it is subject to UK taxation.

Pay settlements consist of an element of revaluation to take account of the effects of inflation, and an element of progression related to performance against objectives. Annual settlements are awarded from 1 August each year (1 April for directors) and relate to individuals' performance in the previous financial year. Awards are paid as consolidated increases in basic pay up to the maximum rate for the job, and as non-consolidated lump sums above it. Members of staff are also eligible for a non-consolidated performance-related bonus.

Three members of staff on the HEFCE payroll are seconded on a fixed-term basis to the Office For Fair Access (OFFA). The reimbursement of costs from OFFA is netted off against expenditure in the statements shown above.

Staff costs (continued)
Pensions

The Council contributes to two pension schemes, Civil Service Pensions and the Universities Superannuation Scheme (USS). Pension contributions payable by HEFCE for the year ending 31 March 2007 were as follows:

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Civil Service Pensions	1,751	1,535
Universities Superannuation Scheme	14	19
	<u>1,765</u>	<u>1,554</u>

There are no outstanding or prepaid contributions as at 31 March 2007.

Further details of the Council's pensions arrangements can be found in the remuneration report on page 34.

6 Other administration costs

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000 re-stated
Staff related and general administrative expenditure (including recruitment, training, travel, and organising conferences)	1,932	2,157
Research and evaluation costs (and other consultancy-related expenditure)	1,737	1,916
Premises costs (including rent, rates, heat and light, maintenance, equipment and furniture)	1,235	729
Rental payments under operating leases:		
Hire of plant and machinery	45	45
Other operating leases	1,110	1,085
Office costs (including IT costs, catering and room hire, telecommunications, stationery and publications)	726	985
Board & committee members fees and expenses	145	279
Audit fee 2006-07	40	-
Audit fee 2005-06	4 *	33
Non-cash items:		
Impairment of IT assets	5	9
	6,979	7,238

The auditors received no remuneration for non-audit services.

The analysis of expenditure shown above has been presented differently this year, in order to more fully reflect the in-year management accounting process whereby HEFCE monitors and reports on its running costs.

In order to be consistent with other areas of programme expenditure, the costs of the JISC Board and RAE Committees are included within the relevant grant line for 2006-07 (see Appendix 1). In 2005-06 these costs were included within other administration costs.

* Cost of additional audit fee agreed after the certification of 2005-06 accounts.

Other administration costs (continued)

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Annual commitments under operating leases are as follows:		
Land and buildings		
Leases expiring within:		
One year	0	226
Two to five years	0	0
More than five years	1,095	869
	1,095	1,095
Others		
Leases expiring within:		
One year	2	31
Two to five years	43	5
More than five years	0	0
	45	36

The Council's lease on its offices at Northavon House in Bristol expires on 24 December 2015.

The Council's lease on its offices at Centrepoint in London expires on 23 June 2016 (subject to a three month notice period by either party).

Operating leases shown in the **Other** category relate to the rental of office equipment.

7a Tangible fixed assets

	Leasehold improvements	Furniture and office equipment	Computer equipment	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 April 2006	16	70	408	494
Impairment	0	0	(12)	(12)
Additions	0	0	69	69
Disposals	0	0	(217)	(217)
At 31 March 2007	16	70	248	334
Depreciation				
At 1 April 2006	13	55	330	398
Charge for period	0	5	82	87
Impairment	0	0	(7)	(7)
Disposals	0	0	(217)	(217)
At 31 March 2007	13	60	188	261
Net book value				
At 31 March 2006	3	15	78	96
At 31 March 2007	3	10	60	73

7b Intangible fixed assets

	Information content licences
	£'000
Cost or valuation	
At 1 April 2006	5,899
Impairment	(392)
Value of assets written off	(673)
Disposals (transfer of assets)	(4,834)
At 31 March 2007	0
Amortisation	
At 1 April 2006	3,813
Charge for period	14
Value of amortisation written off	(644)
Disposals (transfer of assets)	(3,183)
At 31 March 2007	0
Net book value	
At 31 March 2006	2,086
At 31 March 2007	0

On 1 August 2006 ownership of all capitalised licences, other than those held in perpetuity, were transferred to the new JISC Content Procurement Company (JCPC). The transfer of the net book value of these assets (£1,651,000) is shown as a grant to that related body on the face of the income and expenditure account. Cash grant was also paid to JCPC (see note 19) in part to fund JCPC purchase of new licences. Transferred and new licences are accounted for within the JCPC accounts. On the basis of materiality we have written off the value of those licences held in perpetuity (£29,000), with the cost shown under 'Amortisation, impairment, and write-off' on the income and expenditure account.

8 Notional costs

The cost of capital for 2006-07 has been arrived at by calculating a rate of 3.5 per cent (2005-06 3.5 per cent) of the average capital employed.

In accordance with HM Treasury guidance non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Capital employed as at 1 April	(265,114)	(266,494)
Capital employed as at 31 March	(226,885)	(265,114)
Average capital employed	(246,000)	(265,804)
Notional interest on capital	8,610	9,303

The notional cost of capital is designed to show the opportunity cost of funding the net assets needed to provide a particular service. It is a non-cash charge shown on the income and expenditure account.

HEFCE is in the unusual position of having a credit charge on the income and expenditure account. This is because instead of showing overall net assets on its balance sheet, the Council has overall net liabilities due to its provision for future payments under the Inherited Staff Liabilities programme (as detailed in note 12 to the accounts).

It follows that as there is a net liability position the accounts need to show a cost of capital credit as the Exchequer is in essence being funded by those to whom it has a liability. In a sense therefore the Exchequer benefits from having these liabilities and so the income and expenditure account has to reflect that benefit. However, the effect of this notional credit is reversed on the income and expenditure account so that the bottom line net expenditure for the year is not distorted.

9a Repayable grants to institutions

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Balances as at 1 April	19,916	16,499
Advances during the year	6,369	5,875
Repayments during the year	(2,717)	(2,458)
Balances as at 31 March	<u>23,568</u>	<u>19,916</u>
None of the above repayable grants are interest bearing.		
	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Balances at 31 March repayable:		
Within one year	4,235	2,540
After one year	19,333	17,376
	<u>23,568</u>	<u>19,916</u>

The HEFCE Board has agreed the principles for providing repayable grants to institutions. These repayable grants are provided within the total budgets of the following programmes:

- Poor estates
- Procurement
- Medical capital
- Restructuring and Collaboration Fund
- Strategic Development Fund

Repayable grants are only provided for projects which meet the criteria for the particular programme. Amounts provided are within the total funding for the programme approved by the Board. Repayable grants are normally for three to five years, but can be made for up to 10 years and are interest free.

As at 31 March 2007, six institutions (2006: three) had repayable grants outstanding in excess of £1,000,000. The total value of these grants was £16,559,684 (2006: £14,291,975).

9b Staff loans

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Balances as at 1 April	2	1
Advances during the year	2	4
Repayments during the year	(4)	(3)
Balances as at 31 March	<u>0</u>	<u>2</u>
	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Balances at 31 March repayable within:		
One year	0	2
Two to five years	0	0
	<u>0</u>	<u>2</u>

Loans for the purchase of bus and train season tickets and bicycles are available to all HEFCE staff after a qualifying period. These loans are interest free and are repayable through the Council's payroll over the period of the duration of ticket or in the case of bicycles, over six months.

9c Debtors

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Programme debtors	1,183	5,067
Programme prepayments	13,243	18,272
Trade debtors	226	385
Running costs prepayments	293	412
	<u>14,945</u>	<u>24,136</u>

Programme debtors include contributions to national initiatives due from other funding councils.

Programme prepayments relate to recovery of grant funding (or 'holdback') due from institutions.

Prepayments relate to running costs payments made in advance for services, including rental of Council premises and maintenance contracts.

10 Details of cash balances at year end

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Cash held at the Bank of England:		
In respect of programme funds	40,196	5,101
In respect of running costs	168	(286)
	<u>40,364</u>	<u>4,815</u>
Cash held at other banks and in hand	22	1
Cash held for the European Network and Programming Group	31	31
	<u>40,417</u>	<u>4,847</u>

The main bank accounts of the Council are held at the Bank of England in an Office of HM Paymaster General account and in consequence any interest is retained to the benefit of the Exchequer.

In cash terms the DfES authorises a working balance at 31 March of 2 per cent of the total grant in aid for the financial year. The cash balances above are within the margins, as follows:

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Programme funds		
Grant received	6,888,498	6,556,024
2 per cent thereof	137,770	131,120
Balances at year end	40,204	5,071
Running costs		
Grant received	17,098	16,892
2 per cent thereof	342	338
Balances at year end	182	(255)

11 Creditors: amounts falling due within one year

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Programme accruals	4,692	27,611
Trade creditors	184	227
Running costs accruals	51	162
Tax and social security	11	10
Other creditors: European Network and Programming Group	31	31
	<u>4,969</u>	<u>28,041</u>

Programme accruals include claims received after the year end for capital projects where funding is granted on submission of a claim or profile.

The **tax and social security** creditor is the element of VAT charged to OFFA on the HEFCE service level agreement, which is then paid to HM Revenue and Customs (HMRC). The agreement is charged quarterly and the VAT owing to HMRC for the quarter to 31 March is accrued.

Other creditors relates to funds held by the Council on behalf of the European Network and Programming Group, an independent self-financing organisation which acts as a forum for research networking across Europe. Further details of its activities can be found on its web-site, www.enpg.org.

12 Provisions for liabilities and charges

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Balance of provision at 1 April	283,341	284,598
Additional charge in year	0	15
Provision utilised in year	(27,718)	(29,316)
Provision reversed unused in year	(1,480)	0
Unwinding of discount	6,043	6,261
Effect of change in discount rate	0	21,783
Provisions created in year	369	0
Balance of provision at 31 March	260,555	283,341

HEFCE has three provisions as at 31 March 2007 (*2006: one*), one for inherited staff liabilities, one for early retirement costs, and one for office move and refurbishment.

The balance of the inherited staff liabilities as at 31 March is £260,185,555 (*2006: £283,340,670*). Inherited staff liabilities are certain staff-related commitments of HEIs that were previously local authority maintained. These liabilities were transferred from the local authority to HEIs on incorporation. Consequently, the 1988 Education Reform Act made it a statutory responsibility of the Polytechnics and Colleges Funding Council (PCFC) to reimburse certain institutions and local education authorities for staff-related liabilities.

Upon its formation HEFCE agreed to take over from the PCFC the responsibility under section 67 of the Further and Higher Education Act 1992 to meet staff-related liabilities.

The liabilities for which we provide reimbursement relate to three main categories:

- early retirement or redundancy compensation payments
- protection of salary
- pension increases under the Local Government Superannuation Scheme for former non teaching staff of institutions formerly funded by the PCFC.

As a result of taking on this responsibility HEFCE has recognised a provision for inherited staff liabilities on the balance sheet as a long-term liability. An independent review is undertaken every three years to verify the level of provision required and the estimated date when payments will cease (currently expected to be in 2016-17). The next review of the provision will take place in 2007-08.

During 2006-07 HEFCE has used its authority to provide for early retirement costs relating to a member of staff. The balance of the provision for early retirement cost as at 31 March 2007 is £107,224 (*2006: nil*). Payments will continue until 2011-12.

The balance of the provision for office move and refurbishment as at 31 March 2007 is £261,709 (*2006: nil*). Payments are wholly due in 2007-08 and in this instance future payments have not been discounted.

In 2006-07 the HM Treasury discount rate, the basis used to calculate the current value of future payments, was 2.2 per cent.

13 Financial commitments and contingent liabilities as at end of period

Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July). As at 31 March 2007 there are no contingent liabilities.

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
The amount of grant committed for the period April to July is:	2,392,463	2,183,632
The amount of grant committed for the next academic year is:	7,137,000	6,706,000

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each March. The publication detailing the 2007-08 academic year (HEFCE 2007/06) is available on HEFCE's web-site at www.hefce.ac.uk under Publications.

14a General reserve movements

	As at 31 March 2007 £'000	As at 31 March 2006 £'000 re-stated
Access and hardship Funds		
Balance as at 1 April	(1,574)	(741)
Grant	77,657	82,271
Net expenditure for the year	(76,821)	(83,104)
Balance as at 31 March	<u>(738)</u>	<u>(1,574)</u>
Programmes		
Balance as at 1 April	(259,045)	(177,332)
Grant in aid	6,888,498	6,556,024
Net expenditure for the year	(6,815,443)	(6,637,737)
Balance as at 31 March	<u>(185,990)</u>	<u>(259,045)</u>
Running costs		
Balance as at 1 April	320	831
Grant in aid	17,098	16,892
Net expenditure for the year	(17,211)	(17,403)
Balance as at 31 March	<u>207</u>	<u>320</u>
Total		
Balance as at 1 April	(260,299)	(177,242)
Grant and grant in aid	6,983,253	6,655,187
Net expenditure transferred in year	(6,909,475)	(6,738,244)
Balance as at 31 March	<u><u>(186,521)</u></u>	<u><u>(260,299)</u></u>

This note reconciles the net expenditure as shown on the income and expenditure account to the accumulated general reserve as shown on the balance sheet.

The analysis of movements in reserves shown above has been presented differently this year to reflect the accounting treatment required by changes in the Financial Reporting Manual. These changes and their impact in terms of prior year adjustment are explained more fully in notes 14b and 20.

The large negative reserve reflects the provision for future payments under the inherited staff liabilities programme (see note 12).

14b Restatement of general reserve

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Balance at 1 April as previously stated	(262,481)	(180,837)
Prior year adjustment (transfer from deferred government grant reserve): see note 20	2,182	3,595
Balance at 1 April re-stated: see note 14a	<u><u>(260,299)</u></u>	<u><u>(177,242)</u></u>

15a Reconciliation of net expenditure to net cash flow from operating activities

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000 re-stated
Net expenditure before interest	(6,903,432)	(6,710,200)
Depreciation, amortisation, impairment and write-off	527	3,356
Capitalised assets transferred as grant	1,651	0
Decrease/(increase) in debtors and loans	5,541	(18,605)
Increase/(decrease) in creditors	(23,072)	17,052
Payment from provisions	(27,718)	(29,316)
Additional/(unused) provision in year	(1,111)	15
Net cash inflow/(outflow) from operating activities	<u>(6,947,614)</u>	<u>(6,737,698)</u>

This note reconciles net expenditure as shown on the income and expenditure account to the net cash inflow or outflow shown on the cashflow statement.

15b Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Net funds at 1 April	4,847	89,301
Increase/(decrease) in cash for the year	35,570	(84,454)
Net funds at 31 March	<u>40,417</u>	<u>4,847</u>

This note reconciles the net movement in funds for the year from the cash flow statement to the details of cash balances at year end (note 10).

16 Reconciliation of movement in funds

	As at 31 March 2007 £'000	As at 31 March 2006 £'000 re-stated
Opening balance	(260,299)	(177,242)
Net expenditure for the year transferred from the income and expenditure account	(6,909,475)	(6,738,244)
Grant and grant in aid	6,983,253	6,655,187
Closing balance: general reserve	<u>(186,521)</u>	<u>(260,299)</u>

17 Debtor and creditor balances with other government bodies

	Debtors as at 31 March 2007 £'000	Creditors as at 31 March 2007 £'000
Other central government bodies	1,254	398
Local authorities	0	609
NHS Trusts	0	0
Public corporations and trading funds	0	0
Balances with other government bodies	1,254	1,007
Balances with non-government bodies	13,691	3,962
Total as per debtors' and creditors' notes	<u>14,945</u>	<u>4,969</u>

18 Special payments

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Special payments	0	1,625

The Council is required to disclose all special payments in excess of an aggregated total of £250,000. For the year ended 31 March 2007 no special payments were made (2005-06: two special payments for a total of £1,625,000).

19 Payments to related bodies

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
British Universities Film and Video Council (BUFVC)	836	0
Equality Challenge Unit (ECU)	802	0
Foundation Degree Forward (FDF)	2,003	4,651
HERO Ltd (Higher Education and Research Opportunities in the United Kingdom)	749	935
Higher Education Academy (HEA)	22,472	9,952
Higher Education Policy Institute (HEPI)	26	25
Higher Education Statistics Agency (HESA)	378	118
JISC Content Procurement Company (JCPC), trading as JISC Collections	1,973	0
JNT Association Ltd, trading as UKERNA	50,897	41,990
Leadership Foundation for Higher Education (LFHE)	2,053	2,579
Quality Assurance Agency for Higher Education (QAA)	3,017	4,118
Research Information Network (RIN)	966	141
UK eUniversities Worldwide	0	1,600
	86,172	66,109

This note discloses HEFCE's grant contribution to the funding of related bodies, none of which are consolidated into HEFCE's accounts (see Note 1 accounting policies). In certain cases funding is paid to the host organisation, rather than directly to the related body:

- Funding to Foundation Degree Forward is paid via the University of Staffordshire.
- Funding to the Research Information Network is paid via the British Library.

Further information on related bodies can be found at www.hefce.ac.uk under About us/Related bodies.

20 Prior year adjustment

The 2006-07 Financial Reporting Manual contained changes relating to accounting for grants and grant in aid (GIA). Prior period adjustments were required to reflect these changes in accounting policy. The 2005-06 accounts have been restated on a comparable basis.

Prior to 2006-07 revenue GIA was treated as income and GIA used to purchase assets was taken to the deferred government grant (DGG) reserve. An amount equal to depreciation and revaluation of fixed assets was transferred out of DGG into the income and expenditure account. All GIA is now treated as financing (see note 1 for more detail) and a DGG is no longer required.

While the 2005-06 net expenditure is now much higher than shown last year, there is no net financial impact from these changes, as the GIA financing remains available. In theory the DGG reserve balance would be split between the revaluation element (revaluation reserve) and the remainder included within general reserve. However, on the basis of materiality we consider that a revaluation reserve is not necessary and all the previous DGG balances have been included within the general reserve.

There is no net financial impact on total reserves or other balance sheet figures.

21 Events after the balance sheet date

There have been no events after the balance sheet date requiring an adjustment to the financial statements.

The financial statements were authorised for issue on 14 June 2007 by Professor David Eastwood.

22 Related party transactions

HEFCE is a non-departmental public body sponsored by the DfES. The DfES is regarded as a related party, as are sister funding bodies: the Scottish Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland, the Training and Development Agency, and the Learning and Skills Council. The British Academy and the Economic and Social Research Council are also related parties.

In the course of allocating funding during the year, HEFCE entered into material transactions with the following related parties, to which the Board members, Audit Committee members, and senior employees stated below are related parties:

- Payments to BDO Stoy Hayward, where **James Aston MBE** is a partner.
- Grants to The Institute of Education, where **Richard Coldwell CBE** is a member of the council, and payments to Foundation Degree Forward where he is Chair.
- Grants to the University of East Anglia where **Professor David Eastwood** was Vice-Chancellor, and payments to Universities Superannuation Scheme Limited where he is a member of the board (a position previously filled by **Steve Egan**).
- Grants to Newcastle College, where **Jackie Fisher CBE** is Principal.
- Grants to the University of Cambridge, where **Dame Patricia Hodgson** is Principal of Newnham College.
- Grants to the Royal College of Nursing, where **Dr Beverly Malone** was General Secretary.
- Grants to the University of Nottingham where **Professor Peter Rubin** is Professor of Therapeutics.
- Grants to Brunel University, where **Peter Saraga OBE** is a member of the university court; to the University of Sussex, where he is a member of the council, and to Imperial College where he has been a visiting Professor in the Department of Electric and Electronic Engineering.
- Grants to the College of Law, where **Professor Nigel Savage** is Chief Executive.
- Grants to Kingston University, whose Vice-Chancellor is **Professor Sir Peter Scott**; to St. George's Hospital Medical School, where he is a member of the council; and to the University of Bolton where he is chair of an advisory committee.
- Grants to Brunel University, where **Michael Sheasby** is Chair of the Audit Committee.
- Payments to PricewaterhouseCoopers, where **Ed Smith** is Global Chief Operating Officer.
- Grants to Imperial College of Science, Technology and Medicine, where **Sir Richard Sykes** is Rector.
- Grants to the University of Northampton, where **Ann Tate** is Vice-Chancellor.
- Grants to the University of Manchester, where **Kathleen Tattersall OBE** is Chair of the Audit Committee.
- Grants to the University of Lancaster, where **Professor Paul Wellings** is Vice-Chancellor.
- Grants to York St John University, where **Professor Dianne Willcocks** is Vice-Chancellor.
- Grants to the University of Hertfordshire, where **Professor Tim Wilson** is Vice-Chancellor.
- Grants to the Open University, where **Fraser Woodburn** is Secretary.

HEFCE has had no material transactions with companies whose directors are closely associated with it. In this context, closely associated refers to existing or former Council board members, or directors. Board members, former board members and directors have other relationships through family members who are employees or students at institutions funded by HEFCE or through membership of governing bodies. These do not give rise to material transactions which need to be disclosed. Details of relationships are held in the Council's register of interest and are also available on our web-site at www.hefce.ac.uk under About us/Board.

Appendix 1 Full analysis of non-recurrent grant by strategic aim: unaudited

As summarised in note 4 to the accounts	Total for year ended 31 March 2007 £'000	Institutional funding or national programme £'000	Non-institutional funding £'000	Special institutional funding £'000
Learning and teaching				
Learning and teaching infrastructure capital	292,661	292,661		
Centres for excellence in teaching & learning	121,263	121,263		
Rewarding quality enhancement	46,902	46,902		
Higher Education Academy*	21,369		21,369	
Capital for further education colleges	14,702			14,702
Quality Assurance Agency*	5,945		5,945	
Tomlinson	5,618			5,618
Research into learning and teaching	5,331		5,331	
College fees	3,632			3,632
Foundation Degree Forward	2,036		2,036	
E-learning (including UK eUniversities*)	1,290	1,290		
Dance and drama	519			519
National Flying Laboratory Centre	224			224
New Technology Institutes	127	127		
Other minor or finishing initiatives	419	419		
	522,038	462,662	34,681	24,695
Widening Participation				
Aimhigher (and associated initiatives)	61,700	61,700		
HERO*	403		403	
Students with Learning Difficulties & Disabilities	135			135
	62,238	61,700	403	135
Research				
Science Research Investment Fund	419,000	419,000		
Research capital	43,999	43,999		
Overseas Research Students Award Scheme	14,300	14,300		
Museums, galleries and collections	9,922		9,922	
Copyright libraries	2,927			2,927
Research libraries programme	816		816	
Research Assessment Exercise	53			53
Finishing joint capital initiatives	574	574		
	491,591	477,873	10,738	2,980
Business and community				
Higher Education Innovation Fund	111,948	111,948		
Higher Education Active Community Fund	1,715	1,715		
Knowledge Transfer Capability Fund	1,663			1,663
	115,326	113,663	0	1,663

Full analysis of non-recurrent grant by strategic aim: unaudited (continued)

As summarised in note 4 to the accounts	Total for year ended 31 March 2007 £'000	Institutional funding or national programme £'000	Non- institutional funding £'000	Special institutional funding £'000
Sustaining a high quality sector				
Strategic Development Fund	76,689	76,689		
London	12,777			12,777
Inherited liabilities	5,085			5,085
Leadership Foundation for Higher Education*	2,107		2,107	
Management Development Fund	1,995			1,995
Equality Challenge Unit	851		851	
Procurement initiatives	504			504
Higher education regional associations	449	449		
Costing and pricing initiative	193			193
Other minor or finishing initiatives	158			158
	100,808	77,138	2,958	20,712
Excellence in delivery				
International Initiatives	518			518
Higher Education Policy Institute*	185		185	
Miscellaneous grant	262		262	
	965	0	447	518
JISC-related activities				
JISC initiatives (including UKERNA*)	96,337		96,337	
	96,337	0	96,337	0
Total funding for initiatives	1,389,303	1,193,036	145,564	50,703

Institutional funding or national programme is funding that is available to all institutions.

Non-institutional funding is funding provided to sector bodies (with related bodies identified by *).

Special institutional funding is provided in specific areas to achieve objectives on behalf of the sector.

Full analysis of non-recurrent grant by strategic aim: unaudited (continued)**Learning and teaching**

Learning and teaching infrastructure capital. Formulaic distribution of earmarked funding to assist with improving teaching and learning infrastructure. This encompasses the HE in FECs Development Fund and funding for expansion of places in medical schools.

Centres for Excellence in Teaching and Learning (CETLs). Funding to reward excellent teaching practice, and to further invest in that practice so that CETLs funding delivers substantial benefits to students, teachers and institutions.

Rewarding quality enhancement. Institutional, subject and individual strands of funding to promote and reward excellence in teaching.

Higher Education Academy. Funding for the Higher Education Academy to develop as a major resource for the sector to support quality enhancement, professional development and dissemination of good practice aimed at improving the learning experience for students. This includes the National Teaching Fellowship Scheme, the Fund for the Development of Teaching and Learning, and funding for subject centres via the Learning and Teaching Support Network.

Capital for FECs. Capital allocations for further education colleges directly funded by HEFCE.

Quality Assurance Agency. Funding to secure the assessment of the quality of education provided by individual institutions.

Tomlinson. Grant towards the capital costs of the reorganisation of medical education and research in London.

Research into learning and teaching. Fund to promote high quality research on education, particularly teaching and learning, to increase capacity in educational research and to provide further research into higher education policy and practice.

College fees. Additional funding to the Universities of Cambridge and Oxford following the abolition of the undergraduate tuition fee in 1999-2000, to be phased out over 10 years.

Foundation Degree Forward. Funding to develop and promote intermediate-level qualifications, in partnership with employers. Foundation Degree Forward has been set up to provide a support network of expertise in foundation degree development.

E-learning. Funding to support HEFCE's strategy to integrate e-learning into higher education, including the costs for the eChina project.

Dance and drama. Funding for non-HEFCE institutions that provide high quality dance and drama training at HE level, to allow dance and drama students to develop their talents.

National Flying Laboratory Centre. Funding for the national facility at Cranfield University offering flying time for aeronautical courses.

New Technology Institutes (NTIs). Funding for regional institutions designed to meet the demand for information technology skills and to help small and medium sized enterprises to exploit new technology and innovative business practices more efficiently.

Other minor or finishing initiatives. Funding for the Teaching and Learning Technology Programme, early rounds of the Fund for the Development of Teaching and Learning, and funding to support minority subjects.

Widening participation

Aimhigher. A joint initiative between the DfES, HEFCE and the Learning and Skills Council funding regional partnerships between HE, FE and schools in order to widen and increase participation in higher education. This encompasses funding for Excellence Fellowships, Partnerships for Progression and summer schools.

Higher Education and Research Opportunities (HERO). Funding for a web-based resource to support transparency of information and to inform student choice.

Students with Learning Difficulties and Disabilities. Targeted funding to encourage institutions to develop high quality provision for students with disabilities.

Research

Science Research Investment Fund. Capital funding for major projects which will have a significant impact on HEIs' research infrastructure.

Research capital. Distribution of earmarked funding to assist with improving the infrastructure for research and knowledge transfer.

Overseas Research Students Award Scheme. The Council's contribution to a scheme to attract high quality overseas research students to UK HEIs.

Museums galleries and collections. Funding to support advanced research in the arts and humanities and to promote and support excellence in research in these fields. Also HEFCE's contribution towards the costs of operating and maintaining museums, galleries and collections at individual institutions but accessible by all institutions.

Copyright libraries. Continued funding for copyright libraries that allow free access to researchers from within the UK higher education community.

Research libraries programme. Funding to recognise additional costs for HEIs of providing external access to major research libraries.

Research Assessment Exercise. Joint funding with other funding bodies to support the next peer review exercise in 2008 to evaluate the quality of research in UK higher education institutions.

Finishing joint capital initiatives. Residual funding for the Joint infrastructure Fund and the Joint Research Equipment Initiative, which have both now finished.

Business and community

Higher Education Innovation Fund. Funding for activities that will increase HEIs' capability to respond to the needs of business where this will lead to identifiable economic benefits.

Higher Education Active Community Fund. Funding to enhance the key role played by HEIs in the local community, as part of the Government's wider Active Community initiative which aims to involve more people in voluntary activity in their local communities.

Knowledge Transfer Capability Fund. Funding to continue to support core knowledge transfer activity at eligible institutions.

Sustaining a high quality HE sector

Strategic Development Fund. Discretionary funding to facilitate constructive development and change, at a strategic level, within the higher education sector. This fund replaced the Restructuring and Collaboration Fund in 2003.

London. Contribution toward the additional costs for HEIs of operating in London, including supplementary pensions.

Inherited liabilities. Reimbursement in respect of liabilities inherited by institutions formerly under the control of local authorities, when these were incorporated as independent institutions.

Leadership Foundation for Higher Education. A resource to develop world-class programmes for leaders, governors and managers in higher education.

Management Development Fund/Leadership Governance and Management Fund. Funding for projects that develop the application of good management practice in HEIs.

Equality Challenge Unit. Funding includes the Equality Challenge Unit which supports the work of UK HEIs in improving equal opportunities for their staff and providing a sector-level view of progress.

Procurement initiatives. Promotion of effective procurement and increased collaboration within the higher education sector.

Higher education regional associations. Funding towards the costs of nine HE regional associations. These are membership organisations that represent HEIs in their regions.

Costing and pricing initiatives. Promotion of increased accountability to stakeholders, improved management information and the integration of academic and financial decision making.

Other minor or finishing initiatives.: Residual funding for a number of small initiatives including estates good practice, golden hellos for staff in specific subjects, Public Private Partnerships and Private Finance Initiatives.

Enabling excellence

International initiatives. Funding for specific projects to assist promotion of UK higher education overseas.

Higher Education Policy Institute. The institute is a company limited by guarantee whose function is to consider, develop, and promulgate policy advice and related matters in the field of UK higher education.

Miscellaneous grant. Other minor funding for teaching and research which does not directly relate to the above allocations.

JISC-related activities

Funding to the Joint Information Systems Committee to support strategic guidance, advice and opportunities in the use of information and communications technology in the higher education sector. Funding is also provided for the costs of the SuperJANET 5 network.

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